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The Fiscal Monitor

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A Quarterly Publication of the Department of Finance

August 1986

Preliminary Financial Results for 1985-86

Highlights

- Federal deficit declined by \$3.8 billion in 1985-86, the first decline in six years and only the second such decline in 16 years.
- Program expenditures were \$0.8 billion lower than in 1984-85, the first such decline in the postwar period.
- Deficit for 1985-86 of \$34.5 billion exceeded the February budget target by only 0.8 per cent.
- Expenditures came in nearly \$0.9 billion below February budget projection.

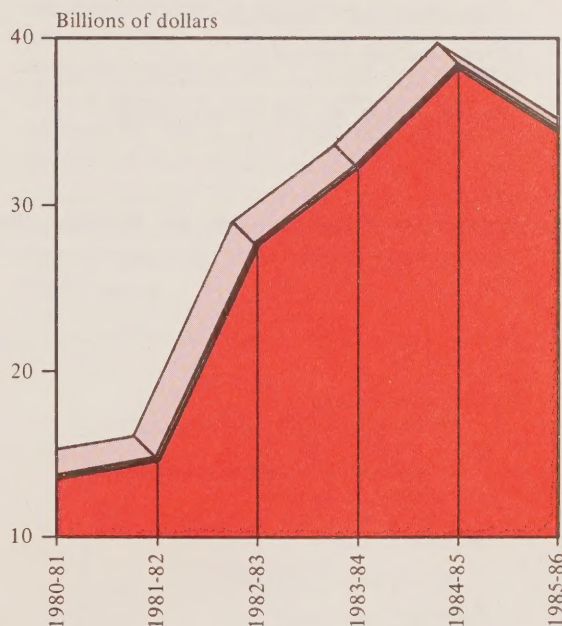
Summary

Preliminary financial results indicate that, on the new accounting basis introduced in the February 1986 budget, the federal government's budgetary deficit in the fiscal year ending March 31, 1986 was \$34.5 billion, down \$3.8 billion from the record \$38.3 billion registered in the previous fiscal year. The year-over-year decline in the deficit recorded in 1985-86 was the first such decline since 1979-80 and only the second since 1969-70.

Control over government expenditures was the prime factor responsible for this turnaround. Program expenditures – that is, total spending excluding public debt charges – declined by 0.9 per cent, the first such decline in the postwar period. Taking into account public debt charges, total budgetary expenditures advanced by only 2.0 per cent between 1984-85 and 1985-86, following annual average increases in excess of 13 per cent over the past decade. The growth in budgetary revenues slowed in 1985-86, increasing by only 8.4 per cent, following an advance of 10.4 per cent in 1984-85.

As a percentage of gross domestic product (GDP), the budgetary deficit fell from 8.6 per cent in 1984-85 to 7.2 per cent in 1985-86. Over 90 per cent of this improvement came from expenditures, as the share of revenues to GDP increased by only 0.1 percentage point.

Deficit in the 80s



Deficit as Share of Economic Output

	1984-85	1985-86	Change
	(per cent of GDP)		
Budgetary deficit	8.6	7.2	-1.4
Budgetary expenditures	24.6	23.4	-1.3
Budgetary revenues	16.0	16.1	0.1

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Table 1

Preliminary Fiscal Outcome for 1985-86

	1983-84	1984-85	1985-86	Old accounting basis 1985-86
	(billions of dollars)			
A. Budgetary transactions				
1. Revenues	64.2	70.9	76.8	69.2
2. Expenditures	96.6	109.2	111.4	103.1
3. Deficit	-32.4	-38.3	-34.5	-33.9
B. Non-budgetary transactions				
4. Loans, investments and advances	-0.5	0.7	0.2	-
5. Specified purpose accounts	4.6	5.1	5.4	5.6
6. Other transactions	3.1	2.6	-1.4	-1.4
7. Net source of funds	7.2	8.5	4.3	4.3
C. Financial requirements (excl. foreign transactions)	-25.2	-29.8	-30.3	-29.7
D. Foreign exchange transactions	0.4	2.4	5.6	5.0
E. Total financial requirements	-24.8	-27.4	-24.6	-24.6
F. Unmatured debt transactions	26.6	26.8	23.5	23.5
G. Year-end cash balances	6.4	5.9	4.7	4.7

Note: Details may not add due to rounding.

Table 2

Preliminary Fiscal Outcome for 1985-86 - Budgetary Revenues and Expenditures

	1983-84	1984-85	1985-86	Year-over-year change	
	(millions of dollars)			1984-85	1985-86
				(per cent)	
A. Budgetary revenues					
1. Personal income tax	26,967	29,254	33,008	8.5	12.8
2. Corporate income tax	7,286	9,379	9,210	28.7	-1.8
3. Unemployment insurance contributions	7,259	7,556	8,712	4.1	15.3
4. Sales and excise taxes	12,433	14,102	16,913	13.4	19.9
5. Other energy taxes	3,782	4,075	2,578	7.7	-36.7
6. Other revenue	6,484	6,528	6,407	0.7	-1.9
7. Total budgetary revenue	64,211	70,894	76,828	10.4	8.4
B. Budgetary expenditures					
1. Statutory programs					
— Unemployment insurance	9,782	10,049	10,011	2.7	-0.4
— Old age security benefits	10,406	11,418	12,525	9.7	9.7
— Established programs financing	7,829	8,595	8,664	9.8	0.8
— Fiscal transfers	5,983	5,985	5,941	0.0	-0.7
— Canada Assistance Plan	3,288	3,745	3,876	13.9	3.5
— Family allowances	2,327	2,418	2,501	3.9	3.4
— Other	4,452	6,652	6,160	49.4	-7.4
Total statutory programs	44,067	48,862	49,678	10.9	1.7
2. Non-statutory programs	34,438	37,915	36,286	10.1	-4.3
3. Program expenditures	78,505	86,777	85,964	10.5	-0.9
4. Public debt charges	18,077	22,444	25,390	24.2	13.1
5. Total budgetary expenditures	96,582	109,221	111,354	13.1	2.0

Part of the deficit in 1985-86 was financed by \$9.9 billion from the non-budgetary and foreign exchange transactions accounts, resulting in total financial requirements of \$24.6 billion, down 10 per cent from 1984-85. These requirements were financed through net borrowings of \$23.5 billion and a drawdown in cash balances.

The deficit was \$275 million higher than that projected in the February 1986 budget. Revenues were \$1.2 billion lower than had been anticipated but this shortfall was substantially offset by a cut of \$0.9 billion in projected expenditures.

On the old accounting basis in use prior to the February 1986 budget, budgetary expenditures were \$103.1 billion and budgetary revenues were \$69.2 billion, resulting in a deficit of \$33.9 billion. This deficit was only \$0.1 billion greater than the \$33.8 billion projected on the old accounting basis in both the May 1985 and February 1986 budgets.

Budgetary Expenditures

The effective control of expenditures is a key element in the government's overall fiscal strategy.

The annual growth rate in budgetary expenditures dropped sharply in 1985-86 from the double-digit increases of the previous decade. In the first full year of the government's mandate, total budgetary expenditures increased by only 2.0 per cent, down from the 13.1-per-cent increase registered in 1984-85. This improvement directly reflected the substantial impact of measures that the government has undertaken to control its expenditures and to reduce the share of the overall economy occupied by federal spending.

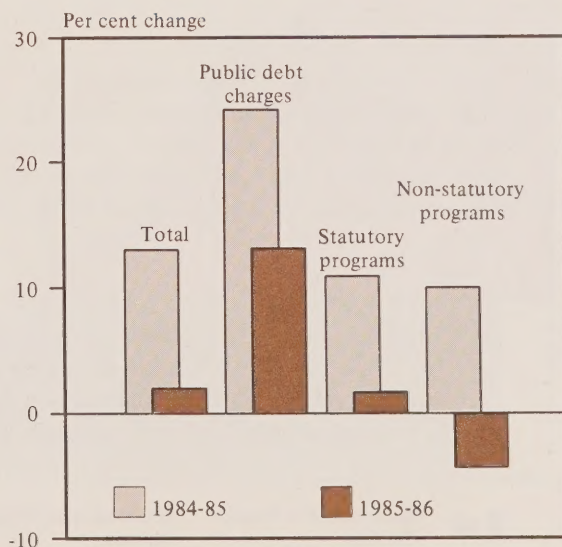
Program expenditures – that is, total expenditures excluding public debt interest – fell by 0.9 per cent in 1985-86, the first noticeable decline in the postwar period. This decline was accomplished even though special assistance of close to \$1 billion was provided to farmers to offset the adverse effects of the 1985 drought in Western Canada and to the uninsured depositors of the Canadian Commercial Bank and Northland Bank. The absolute decline in expenditures was entirely due to a \$1.6 billion decrease in non-statutory program spending, the

component of government spending over which the government has the most control. This was the direct result of actions taken by the government in the November 1984 Economic and Fiscal Statement and in the May 1985 budget together with steps taken during the course of the 1985-86 fiscal year to ensure that the expenditure targets were realized.

In real terms, after adjusting for inflation, government expenditures on non-statutory programs declined by over 8 per cent in 1985-86. This represents a major reversal from annual advances averaging 3.5 per cent over the previous 10 years.

The growth in statutory program spending was also restrained during 1985-86. The improvement in this component, which is largely demand-driven or formula-funded, primarily reflected the improvement in economic activity as unemployment dropped and the rate of inflation remained stable at about 4 per cent. The growth rate in statutory program spending was also affected by the June 1, 1986 elimination of the Petroleum Compensation program. Other actions announced in the last two budgets will have an ongoing impact, restraining the growth rate of spending on statutory programs in future years.

Budgetary Expenditures
Fiscal Year-Over-Year Growth



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Public debt charges continued to exert upward pressure on expenditure growth, although the rate of growth was substantially less than experienced in the previous three years. The behaviour of public debt charges is highly sensitive to changes in interest rates and the improvement in 1985-86 primarily reflected the impact of lower interest rates.

Budgetary Revenues

The growth in budgetary revenues in 1985-86 was roughly in line with the increase in overall economic activity.

The increases in personal income tax collections, revenues from sales and excise taxes and duties, and unemployment insurance contributions reflect the ongoing improvement in economic activity and revenue measures taken in recent budgets starting with the April 1983 budget.

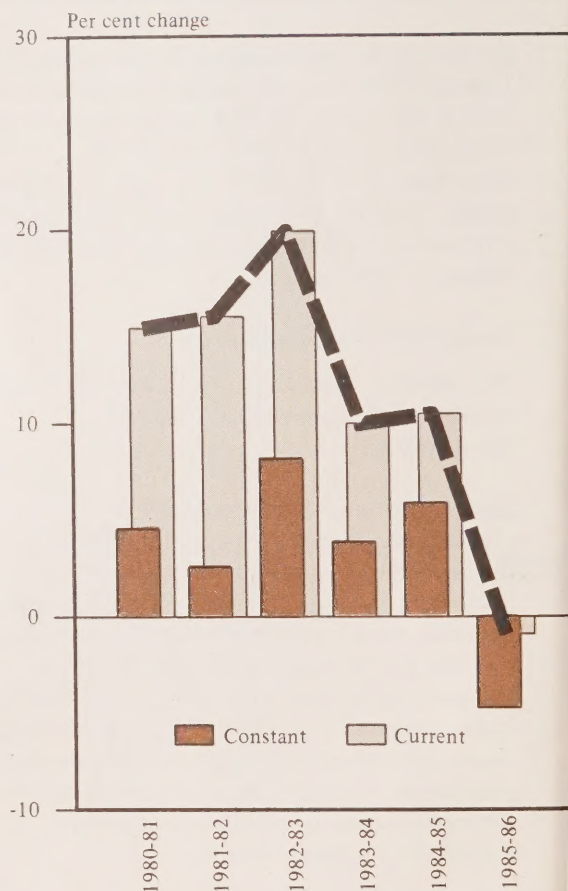
In contrast, corporate income tax receipts declined by nearly 2 per cent and revenues from the various energy-related taxes fell by over 35 per cent. Corporate income tax is the most volatile component of budgetary revenues, reflecting both the cyclical sensitivity of corporate profits and the use of various tax credits and loss carryover provisions. Recent corporate tax reform measures should ensure a more stable revenue base in future years. The decline in energy-related taxes reflects the elimination and phase-out of the various energy-related taxes, as stipulated under the Western Energy Accord.

Financial Requirements

Total financial requirements declined by \$2.8 billion, from \$27.4 billion in 1984-85 to \$24.6 billion in 1985-86. These requirements were funded by a \$1.1 billion drawdown in cash balances and by net borrowings of \$23.5 billion.

In 1985-86, the government raised approximately 50 per cent of domestic borrowings through the issue of marketable bonds, 40 per cent through the issue of Treasury bills and 10 per cent through net Canada Savings Bond sales.

Growth in Program Expenditures Constant and Current Dollars



The information in this Monitor is based on the Preliminary Financial Statements for 1985-86. Final results for the fiscal year ending March 31, 1986 will be released in the Public Accounts of Canada, scheduled for publication in the fall of this year. For further information contact: L.A. Langlois 996-7380 or P. DeVries 993-6963.



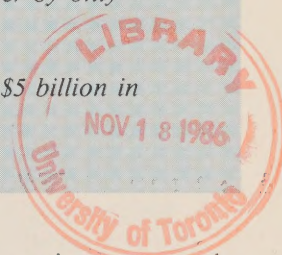
The Fiscal Monitor

A Quarterly Publication of the Department of Finance

November 1986

Highlights of Financial Results for April-June 1986

- The federal deficit was \$1.7 billion lower in the first three months of fiscal year 1986-87 than that recorded in the corresponding period in 1985-86.
- Revenues increased by 20.3 per cent, substantially above the growth rate expected for the fiscal year as a whole, due largely to the impact and timing of past budget measures.
- Total program spending was up 4 per cent, with non-statutory spending higher by only 3.4 per cent; these increases were at or below the rate of inflation.
- Financial requirements (excluding foreign exchange transactions) were down \$5 billion in the first quarter of 1986-87 compared to the first quarter of 1985-86.



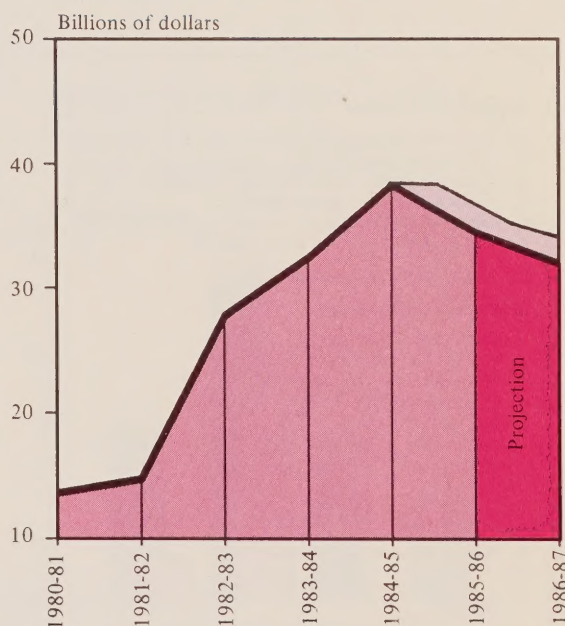
Summary

In the first quarter of the 1986-87 fiscal year (April to June), the budgetary deficit was \$8.3 billion, down \$1.7 billion from the level registered in the first quarter of 1985-86. This year-over-year improvement in the deficit reflected, in large part, the impact and timing of various budget measures on revenues. The revenue measures introduced in the May 1985 budget are fully reflected in the first quarter 1986-87 results. The growth in budgetary expenditures, particularly non-statutory program expenditures, remained restrained in the first quarter of 1986-87, thereby contributing further to the reduction in the deficit.

Non-budgetary transactions provided the government with a net source of funds, amounting to \$1.3 billion, with the result that financial requirements, excluding foreign exchange transactions, were down about \$5 billion compared to the same period a year ago. However, a net requirement of \$1.3 billion was incurred in the foreign exchange accounts.

As a result, total financial requirements stood at \$8.2 billion, down \$2.4 billion from that required in the first quarter of 1985-86.

Deficit in the 1980s



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Table 1

Summary Statement of Transactions

	April to June		Per cent change
	1985-86	1986-87	
	(millions of dollars)		(%)
A. Budgetary transactions			
1. Revenues	15,385	18,503	20.3
2. Expenditures	25,369	26,758	5.5
3. Surplus(+) or Deficit(-)	-9,984	-8,255	-17.3
B. Non-budgetary transactions: net source(+)/requirement(-)			
4. Loans, investments and advances	-366	129	
5. Specified purpose accounts	845	1,572	
6. Other transactions	-2,314	-362	
7. Net source(+)/requirement(-)	-1,835	1,339	
C. Financial requirements (excluding foreign transactions)	-11,819	-6,916	
D. Foreign exchange transactions: net source(+)/requirement(-)	1,129	-1,329	
E. Total financial requirements: net source(+)/requirement(-)	-10,690	-8,245	
F. Unmatured debt transactions: net source(+)/requirement(-)	7,690	6,627	
G. Cash balance at end of period	2,858	3,126	

Table 2

Budgetary Revenues and Expenditures

	April to June		Per cent change
	1985-86	1986-87	
	(millions of dollars)		(%)
A. Budgetary revenues			
1. Personal income tax	5,983	8,066	34.8
2. Corporate income tax	1,556	1,757	12.9
3. Unemployment insurance contributions	2,060	2,268	10.1
4. Sales and excise taxes/duties	3,372	4,466	32.4
5. Other energy taxes	723	270	-62.7
6. Other revenues	1,691	1,676	-0.9
7. Total budgetary revenues	15,385	18,503	20.3
B. Budgetary expenditures			
1. Statutory programs			
- Old age security benefits	3,009	3,269	8.6
- Unemployment insurance benefits	2,616	2,709	3.6
- Established programs financing	2,226	2,196	-1.3
- Fiscal transfers	1,475	1,672	13.4
- Canada Assistance Plan	994	1,043	4.9
- Family allowances	623	633	1.6
- Other	1,736	1,692	-2.5
- Total statutory programs	12,679	13,214	4.2
2. Non-statutory programs			
- Defence	1,502	1,760	17.2
- Other	4,855	4,814	-0.8
- Total non-statutory programs	6,357	6,574	3.4
3. Total program expenditures	19,036	19,788	4.0
4. Public debt charges	6,333	6,970	10.1
5. Total budgetary expenditures	25,369	26,758	5.5

Simple extrapolation of quarterly growth rates can give misleading impressions of the likely outcome for the fiscal year as a whole.

Budgetary Transactions – 1986-87

Year-Over-Year Growth Rates

	Actual April-June	Projected Fiscal Year
	(per cent)	
Revenues	20.3	10.4
Expenditures	5.5	5.0
Deficit	-17.3	-7.0

Quarterly figures exhibit wide fluctuations given the uneven timing of certain payments and receipts, seasonal factors and the effective dates of policy measures. As shown in the above table, the April-June year-over-year growth rate in revenues exceeds that expected for the fiscal year as contained in the Minister of Finance's speech of September 18, 1986. However, as the year proceeds, revenue and expenditure growth rates will move towards those underlying the current outlook for the fiscal year as a whole.

Budgetary Revenues

The year-over-year increase in budgetary revenues in the first three months resulted primarily from strong advances in personal income, sales and excise tax receipts. The year-over-year changes in these components reflected both the continued improvement in economic activity over the last year as well as the impact and timing of past budget measures. More specifically, the May 1985 budget introduced temporary surtaxes on high-income individuals, effective July 1, 1985. Collection of that part of the surtax relating to 1985 incomes was delayed until receipt of the 1985 taxation returns, thereby significantly increasing revenues for the first quarter of 1986-87. The changes to

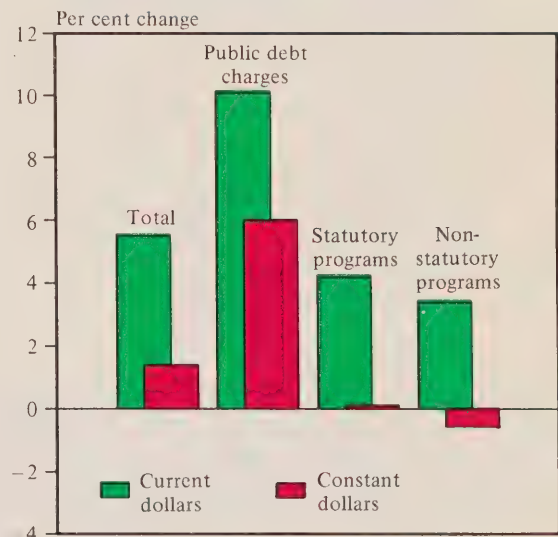
the sales tax base and increases in the sales and gasoline excise tax rates also impacted on the first quarter 1986-87 results.

The collection of the 1985 surtax on large corporations in the first quarter of 1986-87 accounted for most of the 12.9 per cent year-over-year increase in corporate income tax receipts. A major portion of tax receipts from this source is collected in the final quarter of the fiscal year, thus making it extremely difficult to gauge the trend for the year as a whole from receipts for the first three months of the fiscal year. The decline in other energy taxes reflected the elimination and phase-out of the various energy taxes as specified under the Western Energy Accord.

The first quarter revenue growth rates are influenced by the timing of the various policy initiatives. It is expected that, given the current economic outlook, the current year-over-year growth rates for personal income tax revenues and sales and excise tax receipts should converge to the September 18th projections for the fiscal year as a whole, of about 14 per cent and 20 per cent, respectively.

Budgetary Expenditures – 1986-87

Current and Constant Dollars
April to June Year-Over-Year Growth



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Budgetary Expenditures

On a year-over-year basis, budgetary expenditures advanced by 5.5 per cent, only slightly above the rate of increase projected for the fiscal year as a whole. Most of the increase in the first quarter originated in public debt charges and defence spending, which were up 10.1 per cent and 17.2 per cent, respectively, from the first quarter 1985-86 results.

The large increase in public debt charges was due to the continued rise in the stock of debt outstanding and to the impact of high average effective interest rates. Market interest rates rose sharply through the middle months of 1984 and although they have declined significantly since then, substantial amounts of new federal debt were issued and old debt rolled over at these higher rates. Over time, the lower interest rates in evidence since mid-1984 will reduce the average effective interest rate on federal debt outstanding and continue to dampen the year-over-year growth in public debt charges.

The year-over-year increase in program expenditures reflected the timing of certain statutory payments and the continued restraint on non-statutory program spending. The changes in federal transfers to other levels of government under Established Programs Financing and other fiscal transfer arrangements reflected the impact of prior-year adjustments. Increases in the population base and in average benefits, which are indexed to quarterly changes in the consumer price index, accounted for the increase in Old Age Security payments. The decline in other statutory program spending was in relation to large payments in 1985-86 under the Petroleum Compensation Account. This program was eliminated under the provisions of the Western Energy Accord.

The annual increase in non-statutory program spending was 3.4 per cent. Excluding the impact of defence expenditures, which are projected to grow in real terms by about 2 3/4 per cent in 1986-87 and which were affected in the first quarter of 1986-87 by the timing of capital expenditures, other non-statutory program spending actually declined by 0.8 per cent in the first quarter of 1986-87. With inflation recording a year-over-year increase of just over 4 per cent, the decline in non-statutory program spending, excluding defence, amounted to about 5 per cent in real terms. This decline was due to the actions the government has taken to date to control expenditures, including specific program reductions, the 2-per-cent cut in person-years and in operating and maintenance costs.

Financial Requirements

With the first quarter deficit of \$8.3 billion and a net source of funds from non-budgetary transactions of \$1.3 billion, total financial requirements excluding foreign exchange transactions amounted to \$6.9 billion.

Non-budgetary transactions do not normally provide a source of funds in the first quarter of the fiscal year. Traditionally, the settlement of accounts payable, incurred in the previous fiscal year, results in large payments in April and May. However, in fiscal year 1985-86, a larger portion of the accounts payable was settled prior to the end of that fiscal year, thereby resulting in less of a financing requirement in the first quarter of 1986-87.

Foreign exchange transactions resulted in a net requirement of \$1.3 billion. Total financial requirements, therefore, amounted to \$8.2 billion, which were financed through the issuing of Treasury bills and marketable bonds as well as the drawing down of cash balances.

The information in this Monitor is based on the Statements of Financial Operations for June 1986. For further information contact: L.A. Langlois 996-7397 or P. DeVries 992-5977. Cet imprimé est également offert en français.



The Fiscal Monitor

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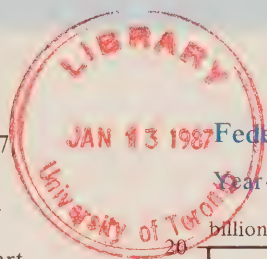
Highlights of Financial Results for April-September 1986

- The federal deficit was \$2.4 billion lower in the first half of fiscal year 1986-87 than that recorded in the corresponding period in 1985-86.
- Revenues increased by 15.5 per cent, somewhat above the 10.4 per cent growth rate expected for the fiscal year as a whole, due in part to the impact of special factors relating to the timing of previous budget measures as well as to the strength in certain underlying tax bases.
- Total program spending was up 4.8 per cent, marginally higher than the 4.2 per cent increase expected for the fiscal year as a whole due primarily to the timing of certain payments.
- Financial requirements (excluding foreign exchange) were down \$5.3 billion in the first half of 1986-87 compared to the first half of 1985-86.

Summary

For the first six months of fiscal year 1986-87 (April to September), the budgetary deficit stood at \$14.2 billion, down \$2.4 billion from the level registered in the first six months of fiscal year 1985-86. This reflected, in large part, the impact and timing of past budget measures, together with the continued strength in some of the underlying tax bases. As well, the deficit, on a year-to-date basis, continued to be influenced by the timing of various payments, particularly in the areas of defence and energy.

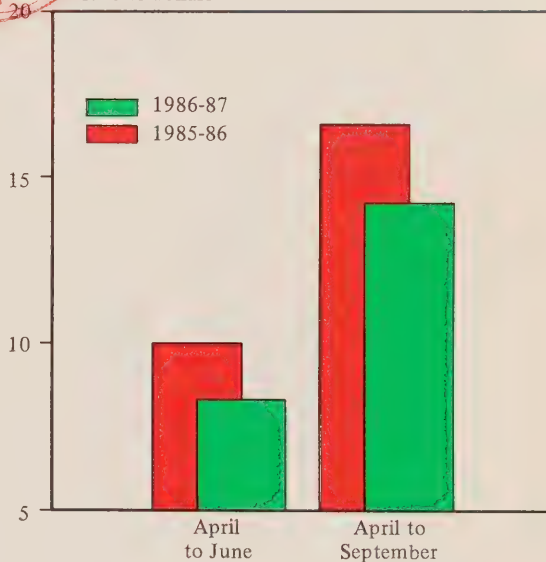
Non-budgetary transactions provided the government with a net source of funds, amounting to \$3.8 billion, with the result that financial requirements, excluding foreign exchange transactions, were down \$5.3 billion compared to the same period a year ago. Foreign exchange transactions gave rise to a net requirement of \$1.6 billion. Thus, total financial requirements, including foreign exchange requirements, stood at \$12 billion, down \$4 billion from that registered in the first half of 1985-86.



Federal Deficit 1985-86 and 1986-87

Year-to-Date

billions of dollars



The Fiscal Monitor

Table 1

Summary Statement of Transactions

	April to September		Per cent change
	1985-86	1986-87	
	(millions of dollars)		
A. Budgetary transactions			
1. Revenues	34,504	39,866	15.5
2. Expenditures	51,135	54,070	5.7
3. Surplus(+) or Deficit(-)	-16,631	-14,204	-14.6
B. Non-budgetary transactions: net source(+)/requirement(-)			
4. Loans, investments and advances	-301	565	
5. Specified purpose accounts	2,445	3,325	
6. Other transactions	-1,209	-62	
7. Net source(+)/requirement(-)	935	3,828	
C. Financial requirements (excluding foreign transactions)	-15,696	-10,376	
D. Foreign exchange transactions: net source(+)/requirement(-)	-320	-1,595	
E. Total financial requirements: net source(+)/requirement(-)	-16,016	-11,971	
F. Unmatured debt transactions: net source(+)/requirement(-)	14,877	9,139	
G. Cash balance at end of period	4,719	1,912	

Table 2

Budgetary Revenues and Expenditures

	April to September		Per cent change
	1985-86	1986-87	
	(millions of dollars)		
A. Budgetary revenues			
1. Personal income tax	14,790	18,061	22.1
2. Corporate income tax	3,533	3,652	3.4
3. Unemployment insurance contributions	4,197	4,620	10.1
4. Sales and excise taxes/duties	7,603	10,065	32.4
5. Other energy taxes	1,427	344	-75.9
6. Other revenues	2,954	3,124	5.8
7. Total budgetary revenues	34,504	39,866	15.5
B. Budgetary expenditures			
1. Statutory programs			
- Old age security benefits	6,095	6,600	8.3
- Unemployment insurance benefits	4,753	4,913	3.4
- Established programs financing	4,461	4,504	1.0
- Fiscal transfers	3,248	3,238	-0.3
- Canada Assistance Plan	1,917	2,026	5.7
- Family allowances	1,246	1,264	1.4
- Other	2,291	2,684	17.2
- Total statutory programs	24,011	25,229	5.1
2. Non-statutory programs			
- Defence	3,715	4,131	11.2
- Other	10,885	11,119	2.1
- Total non-statutory programs	14,600	15,250	4.5
3. Total program expenditures	38,611	40,479	4.8
4. Public debt charges	12,524	13,591	8.5
5. Total budgetary expenditures	51,135	54,070	5.7

Budgetary Transactions – 1986-87

Year-Over-Year Growth Rates

	Actual April-June	Actual April-Sept.	Projected fiscal year
	(per cent change)		
Revenues	20.3	15.5	10.4
Expenditures	5.5	5.7	5.0
Deficit	-17.3	-14.6	-7.0

As shown in the above table, the growth of revenues has been slowing during the past six months of the fiscal year, whereas the growth of expenditures has remained relatively constant.

Budgetary Revenues

The continued strong advances in personal income, sales and excise tax receipts underlie the growth in budgetary revenues during the first six months of 1986-87. The robust year-over-year changes in these components reflect both the continued improvement in economic activity, as well as the impact and timing of past budget measures. More specifically, the May 1985 budget introduced a temporary surtax on high-income individuals, effective July 1, 1985. Collection of that part of the surtax relating to 1985 incomes was delayed until receipt of the 1985 taxation returns, thereby affecting the results for the first half of 1986-87. The broadening of the sales tax base and increases in the sales and gasoline excise tax rates also had an impact on the April to September 1986 results. Sales tax revenues were strengthened further by strong advances in consumption. Partially offsetting the impact of higher sales and excise taxes was a 76-per-cent decline in other energy taxes reflecting the elimination and phase-out of the various energy taxes as specified under the Western Energy Accord.

The growth of corporate income tax revenues slowed in the second quarter of 1986-87 and was up only 3.4 per cent in the first six months of 1986-87 as compared to the same period in 1985-86. Current corporate income tax collection experience partly reflects the weakness in corporate profits, particularly in the oil and gas sector. It should be noted that a major portion of corporate tax receipts are collected in the final quarter of the fiscal year, thus making it

extremely difficult to gauge the trend for the year as a whole.

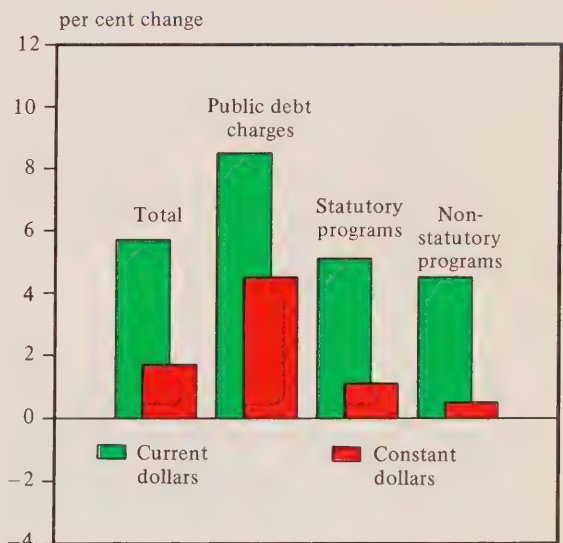
The slowdown in total revenue growth in the second quarter brings the year-over-year increase more in line with the September 18th projection for the fiscal year as a whole. The prepayment of the Child Tax Credit in November and the ending of the high income surtaxes on December 31st will restrain the growth in personal income tax collections in the balance of the fiscal year. The growth in sales tax revenues is also expected to slow as the May 1985 budget measures become incorporated into the 1985-86 base.

Budgetary Expenditures

On a year-over-year basis, budgetary expenditures advanced by 5.7 per cent, slightly above the rate of increase projected for the fiscal year as a whole. Within budgetary expenditures, public debt charges advanced by 8.5 per cent while program spending increased by 4.8 per cent. The year-over-year increase in program expenditures reflects the timing of certain statutory payments and the continued restraint on non-statutory program spending.

Budgetary Expenditures – 1986-87

Current and Constant Dollars April to September Year-Over-Year Growth



The increase in public debt charges was largely due to the continued rise in the stock of debt outstanding. The slowdown in the rate of growth of debt coupled with the effect of lower average effective interest rates on the existing stock of debt should continue to dampen the year-over-year growth in public debt charges.

Spending on statutory programs was up 5.1 per cent in the first half of 1986-87 as compared to the same period in 1985-86. The year-over-year change in federal transfers to other levels of government under Established Programs Financing and other fiscal transfer arrangements primarily reflected the impact of prior-year adjustments, most notably the supplementary equalization payment which was made in the second quarter of 1985-86. Increases in benefits, which are indexed to quarterly changes in the consumer price index and in the population base, account for the increase in Old Age Security payments. The year-over-year change in other statutory program spending is distorted by developments in the Petroleum Compensation Account. This program was eliminated under the provisions of the Western Energy Accord. In the second quarter of 1985-86, revenues into the Account substantially exceeded expenditures, thereby, dampening overall expenditure growth in the second quarter of 1985-86.

In the April to September period, non-statutory program spending was up by 4.5 per cent. Defence spending was up 11.2 per cent due largely to the timing of certain payments relating to capital acquisitions. During the second half of the year, the growth in defence spending will slow and the year-over-year growth rates will converge to their budget allocations. Spending on other non-statutory programs

advanced by 2.1 per cent in the first half of 1986-87. Growth in this component of government spending increased somewhat in the second quarter due to the timing of certain payments. More specifically, these included increased payments under the Petroleum Incentives Program, foreign aid and job creation and training. Excluding the impact of these payments, spending on the other components remained virtually unchanged from a year ago, reflecting the actions the government has taken to date to control expenditures, including specific program reductions, the 2-per-cent reduction in person-years and in operating and maintenance costs.

Financial Requirements

With a deficit of \$14.2 billion in the first half of the year and a net source of funds from non-budgetary transactions of \$3.8 billion, total financial requirements excluding foreign exchange transactions amounted to \$10.4 billion, compared to \$15.7 billion in 1985-86. Slightly less than one-half of this year-over-year improvement was due to the decline in the deficit while the remainder relates to the increase in the source of funds from the non-budgetary transactions. The higher non-budgetary funds relate in part to the earlier settlement of accounts payable in the end of 1985-86, resulting in less of a requirement in the first half of the current fiscal year.

Foreign exchange transactions resulted in a net requirement of \$1.6 billion. Total financial requirements, therefore, amounted to \$12 billion. Net borrowings, particularly in the form of marketable bonds and Treasury bills, amounted to \$9.1 billion. As a result, cash balances were reduced by \$2.8 billion.

The information in this Monitor is based on the Statement of Financial Operations for September 1986. For further information contact: L.A. Langlois 996-7397 or P. DeVries 992-5977. Cet imprimé est également offert en français.



the Fiscal Monitor

A Quarterly Publication of the Department of Finance

March 1987

Highlights of Financial Results for April-December 1986

- Over the period April to December 1986, the federal deficit was \$20.6 billion, \$3.5 billion lower than that recorded in the corresponding period in fiscal year 1985-86.
- The year-over-year growth rate in revenues slowed to 13.4 per cent and has converged significantly towards the 10.2 per cent growth rate projected for the fiscal year as a whole.
- Total spending was up 4.9 per cent, identical to the rate of increase projected for the fiscal year as a whole.
- Financial requirements (excluding foreign exchange) were down \$8.8 billion in the first three quarters of 1986-87 compared to the corresponding period in 1985-86.

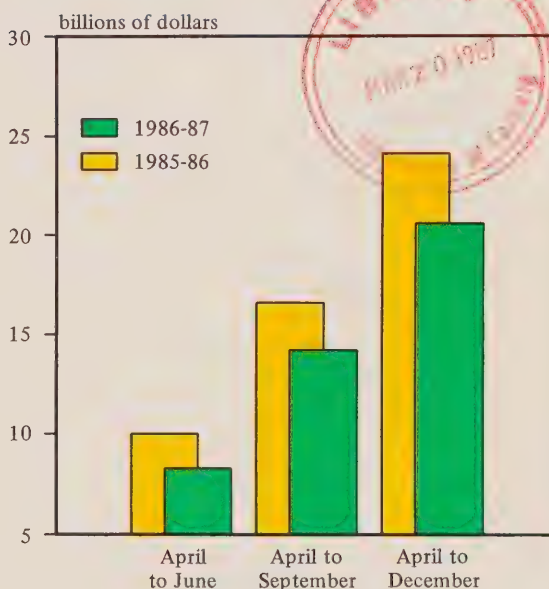
Summary

For the first nine months of fiscal year 1986-87, (April to December), the budgetary deficit stood at \$20.6 billion, down \$3.5 billion from the level registered in the first three quarters of fiscal year 1985-86. The year-over-year improvement in the deficit continues to reflect the growth in the economy, restraint on spending and the impact and timing of past budget measures.

Non-budgetary transactions provided the government with a net source of funds, amounting to \$2.9 billion, with the result that financial requirements, excluding foreign exchange transactions, were down \$8.8 billion compared to the same period a year ago. Foreign exchange transactions gave rise to a net requirement of \$0.6 billion. Thus, total financial requirements, including foreign exchange requirements, stood at \$18.2 billion, down \$6.4 billion from that registered in the first three quarters of 1985-86.

Federal Deficit 1985-86 and 1986-87

Year to Date



The Fiscal Monitor

Table 1

Summary Statement of Transactions

	April to December		Per cent change
	1985-86	1986-87	
	(millions of dollars)		
A. Budgetary transactions			
1. Revenues	54,739	62,095	13.4
2. Expenditures	78,815	82,677	4.9
3. Deficit	-24,076	-20,582	-14.5
B. Non-budgetary transactions			
4. Loans, investments and advances	-498	630	
5. Specified purpose accounts	4,125	4,945	
6. Other transactions	-6,039	-2,667	
7. Net source(+)/requirement(-)	-2,412	2,908	
C. Financial requirements (excluding foreign exchange transactions)	-26,488	-17,674	
D. Foreign exchange transactions net source(+)/requirement(-)	1,850	-553	
E. Total financial requirements	-24,638	-18,227	
F. Unmatured debt transactions	24,555	16,994	
G. Cash balance at end of period	5,775	3,511	

Table 2

Budgetary Revenues and Expenditures

	April to December		Per cent change
	1985-86	1986-87	
	(millions of dollars)		
A. Budgetary revenues			
1. Personal income tax	23,699	28,121	18.7
2. Corporate income tax	5,479	5,837	6.5
3. Unemployment insurance contributions	6,398	7,190	12.4
4. Sales and excise taxes/duties	12,268	15,337	25.0
5. Petroleum and Gas Revenue Tax	1,870	406	-78.3
6. Other revenues	5,025	5,204	3.6
7. Total budgetary revenues	54,739	62,095	13.4
B. Budgetary expenditures			
1. Statutory programs			
- Old Age Security benefits	9,290	10,047	8.1
- Unemployment insurance benefits	7,045	7,339	4.2
- Established Programs Financing	6,703	6,708	0.1
- Fiscal transfers	4,667	4,736	1.5
- Canada Assistance Plan	2,887	3,044	5.4
- Family allowances	1,868	1,895	1.4
- Other	3,665	4,131	12.7
- Total statutory programs	36,125	37,900	4.9
2. Non-statutory programs			
- Defence	6,066	6,564	8.2
- Other	17,473	17,792	1.8
- Total non-statutory programs	23,539	24,356	3.5
3. Total program expenditures	59,664	62,256	4.3
4. Public debt charges	19,151	20,421	6.6
5. Total budgetary expenditures	78,815	82,677	4.9

Budgetary Transactions – 1986-87

Year-Over-Year Growth Rates

	Actual April-June	Actual April-Sept.	Actual April-Dec.	Projected Fiscal Year
	(per cent change)			
Revenues	20.3	15.5	13.4	10.2
Expenditures	5.5	5.7	4.9	4.9
Deficit	-17.3	-14.6	-14.5	-7.0

As shown in the above table, the year-to-date growth in revenues has been converging to the forecast for the fiscal year as a whole. With developments in the third quarter, the growth rate of budgetary expenditures over the first nine months of 1986-87 is now identical to the increase expected for the fiscal year as a whole.

Budgetary Revenues

Continued strength in economic activity, as well as the impact and timing of measures introduced in the May 1985 and February 1986 budgets, underlies the increase in budgetary revenues. As in the past two quarters, most of this increase has been concentrated in personal income and sales and excise tax receipts. The robust year-over-year increase in personal income tax collections reflects, in part, strong advances in employment, as well as the impact of past budget measures. These include the temporary surtax on high-income individuals, effective for the period July 1, 1985 to December 31, 1986, the modification of the indexation formula for tax brackets and personal exemptions, and the introduction of the 3-per-cent surtax on basic federal tax, effective July 1, 1986. Personal income tax revenues were also affected by the prepayment of part of the Child Tax Credit in November 1986. The strength in sales and excise tax revenues is in part due to the strong growth in consumption. Broadening of the sales tax base and increases in the sales and gasoline excise tax rates also contributed to the strong growth in the April to December period. The increase in unemployment insurance contributions primarily reflects the strong advances in employment, as premium contribution rates were held at their 1985 levels. Partially offsetting the impact of these revenue increases was the elimination of various energy-related taxes as specified under the Western Energy Accord, and the termination of the Petroleum and Gas Revenue Tax as of October 1, 1986.

Corporate income tax revenues were up by 6.5 per cent in the first nine months of 1986-87 compared to the same period in 1985-86. The relative weakness in current corporate income tax collection experience reflects, in significant part, the weakness in corporate profits, particularly in the oil and gas sector. It should be noted, however, that a major portion of corporate tax receipts is collected in the final quarter of the fiscal year, thus making it extremely difficult to gauge the trend for the year as a whole.

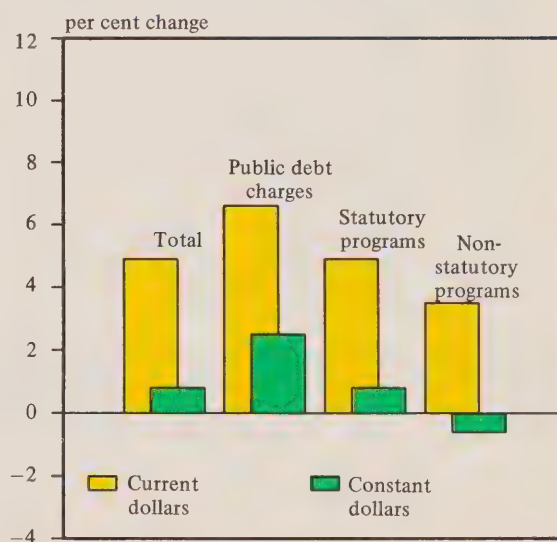
The slowdown in total revenue growth brings the year-over-year increase more in line with the February 1987 budget projection for the fiscal year as whole. The ending of the high-income surtaxes on December 31 will further restrain the growth in personal income tax collections in the balance of the fiscal year. The growth in sales tax revenues is also expected to slow as the 1985-86 base increasingly reflects the impacts of the May 1985 budget measures.

Budgetary Expenditures

On a year-over-year basis, budgetary expenditures advanced by 4.9 per cent, identical to the rate of increase projected for the fiscal year as a whole. Within budgetary expenditures, public debt charges advanced by 6.6 per cent

Budgetary Expenditures – 1986-87

Current and Constant Dollars April to December Year-Over-Year Growth



while program spending increased by 4.3 per cent. The year-over-year increase in public debt charges is slightly lower than that expected for the fiscal year as a whole in the February 1987 budget, while that for program spending is marginally higher.

The slowdown in the rate of growth of debt coupled with lower average effective interest rates on the existing stock of debt continued to dampen the year-over-year increase in public debt charges.

Spending on statutory programs was up 4.9 per cent in the first three quarters of 1986-87 compared to the same period in 1985-86. This component of government spending is for the most part either demand-driven, or formula-funded, with changes largely reflecting developments in economic activity and in the underlying population bases. The relatively large advance in old age security benefits was due to increases in the eligible population base and in benefits, which are indexed to quarterly changes in the consumer price index. Although the national unemployment rate is down from last year, higher unemployment in those regions most adversely affected by the decline in oil prices has resulted in increased unemployment insurance benefit payments. The year-over-year change in federal transfers to other levels of government under Established Programs Financing and other fiscal transfer arrangements primarily reflects the impact of prior-year adjustments, most notably the supplementary equalization payment which was made in the second quarter of 1985-86. Final payments under the Western Grain Stabilization Act with respect to the 1985 crop year were made in December 1986 and account for the large increase in "other" statutory program spending. Total payments under this program amounted to \$859 million, up over \$300 million from that paid out in 1985-86.

In the April to December period, non-statutory program spending was up by 3.5 per cent, resulting in a decline of about 0.5 per cent in

real terms. Defence spending was up 8.2 per cent, reflecting Canada's commitment to increase such expenditures by 2 per cent per year in real terms. Spending on other non-statutory programs advanced by 1.8 per cent in the first nine months of 1986-87. The increase in this component of government spending was due entirely to higher transfers to job creation, foreign aid and to the various native programs. Excluding the impact of these payments, spending on the remaining components of this category registered a decline of about 2.5 per cent from that recorded during the same period in 1985-86. This decline was due to the actions the government has taken to date to control expenditures, including specific program reductions, the 2 per cent reduction in person-years and reductions in operating and maintenance costs.

Financial Requirements

With a deficit of \$20.6 billion in the first three quarters of the year, and a net source of funds from non-budgetary transactions of \$2.9 billion, total financial requirements, excluding foreign exchange transactions, amounted to \$17.7 billion, compared to \$26.5 billion in 1985-86. About 40 per cent of this year-over-year improvement was due to the decline in the deficit while the remainder relates to the increase in sources of funds from the non-budgetary transactions. The higher non-budgetary funds relate in part to the earlier settlement of accounts payable at the end of 1985-86, resulting in a reduced financial requirement in the first nine months of the current fiscal year.

Foreign exchange transactions resulted in a net requirement of \$0.6 billion in the first three quarters of 1986-87. Total financial requirements, therefore, amounted to \$18.2 billion. Net borrowings, particularly in the form of marketable bonds and Treasury bills, amounted to \$17 billion. Cash balances as of December 31, 1986 were \$3.5 billion, some \$2.3 billion below the December 1985 level.

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The Fiscal Monitor

A Quarterly Publication of the Department of Finance

June 1987

Highlights of Financial Results for April 1986 to March 1987

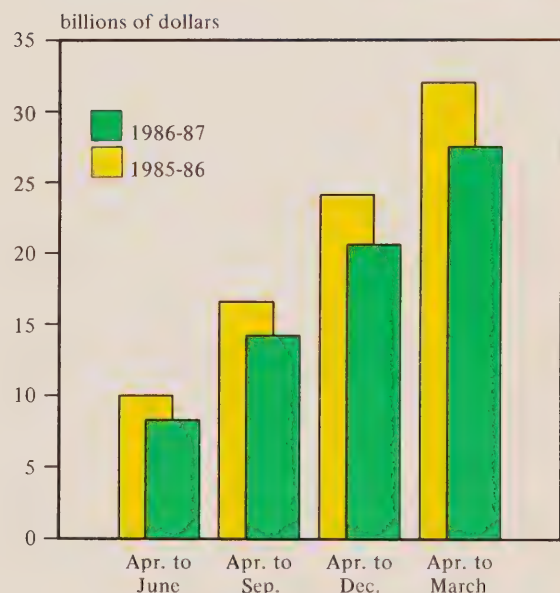
- Over the fiscal year ended March 1987, the federal deficit, prior to supplementary period adjustments, was \$27.5 billion, \$4.5 billion lower than that recorded in fiscal year 1985-86 before adjustments.
- The deficit for 1986-87, which will not be available until late summer, is now expected to be \$31 billion, \$1 billion below the February 1987 budget estimate.
- The year-over-year growth rate in revenues continued to slow and is now only marginally above the growth rate expected for the fiscal year as a whole.
- Total spending was up 4.8 per cent, identical to the rate of increase expected for the fiscal year as a whole and only slightly above the inflation rate.
- Financial requirements (excluding foreign exchange) were down \$8.7 billion compared to the corresponding period in fiscal year 1985-86.

Summary

Although this Monitor contains financial data for the period April 1986 to March 1987, final results for fiscal year 1986-87 will not be available until late summer. Still to be determined are the "end-of-year" accounting adjustments that are recorded in the "supplementary period". These adjustments primarily affect budgetary expenditures since, consistent with the government's accounting principles, goods received or services rendered prior to the end of March but for which no payment has yet been made are reflected in the old year. Some adjustments are also made to budgetary revenues primarily to reflect cash-in-transit. As a result, the final deficit for the fiscal year can be significantly affected by the adjustments recorded in the "supplementary period". Financial requirements, however, are largely unaffected by the supplementary period transactions as the deficit impacts are primarily offset by corresponding adjustments in non-budgetary transactions.

Federal Deficit 1985-86 and 1986-87

Year to Date



The Fiscal Monitor

Table 1

Summary Statement of Transactions

	April to March*		Per cent change
	1985-1986	1986-1987	
	(millions of dollars)		
A. Budgetary transactions			
1. Revenues	74,854	84,491	12.9
2. Expenditures	106,827	111,953	4.8
3. Deficit	-31,973	-27,462	-14.1
B. Non-budgetary transactions			
4. Loans, investments and advances	-45	1,063	
5. Specified purpose accounts	5,318	6,146	
6. Other transactions	-3,533	-1,307	
7. Net source(+)/requirement(-)	1,740	5,902	
C. Financial requirements (excluding foreign exchange transactions)	-30,233	-21,560	
D. Foreign exchange transactions: net source(+)/requirement(-)	5,623	-6,320	
E. Total financial requirements	-24,610	-27,880	
F. Unmatured debt transactions	23,513	27,828	
G. Cash balance at end of period	4,761	4,692	

Table 2

Budgetary Revenues and Expenditures

	April to March*		Per cent change
	1985-1986	1986-1987	
	(millions of dollars)		
A. Budgetary revenues			
1. Personal income tax	32,207	37,613	16.8
2. Corporate income tax	8,967	9,631	7.4
3. Unemployment insurance contributions	8,707	9,567	9.9
4. Sales and excise taxes/duties	16,488	20,177	22.4
5. Petroleum and Gas Revenue Tax	2,512	458	-81.8
6. Other revenues	5,973	7,045	17.9
7. Total budgetary revenues	74,854	84,491	12.9
B. Budgetary expenditures			
1. Statutory programs			
- Old age security benefits	12,527	13,445	7.3
- Unemployment insurance benefits	10,041	10,513	4.7
- Established Programs Financing	8,664	8,768	1.2
- Fiscal transfers	6,455	6,904	7.0
- Canada Assistance Plan	3,876	4,003	3.3
- Family allowances	2,501	2,534	1.3
- Other	5,108	5,180	1.4
- Total statutory programs	49,172	51,347	4.4
2. Non-statutory programs			
- Defence	8,365	8,944	6.9
- Other	23,907	25,061	4.8
- Total non-statutory programs	32,272	34,005	5.4
3. Total program expenditures	81,444	85,352	4.8
4. Public debt charges	25,383	26,601	4.8
5. Total budgetary expenditures	106,827	111,953	4.8

* Does not include supplementary period adjustments. Final year results will be available in late summer.

Budgetary Transactions – 1986-87 Year-Over-Year Growth Rates

	Actual April-June	Actual April-September	Actual April-December	Actual April-March	Projected Fiscal Year
	(per cent change)				
Revenues	20.3	15.5	13.4	12.9	11.4
Expenditures	5.5	5.7	4.9	4.8	4.8
Deficit	-17.3	-14.6	-14.5	-14.1	-9.8

The deficit level to the end of March 1987 stood at \$27.5 billion, \$4.5 billion lower than that registered in the same period in 1985-86. The improvement in the deficit in the fourth quarter was somewhat larger than expected at the time of the February 1987 budget. Consequently, the final deficit for 1986-87 is now expected to be \$31.0 billion, \$1 billion lower than estimated in the February 1987 budget. The year-over-year improvement in the deficit continues to reflect the strength in the underlying tax bases, restraint on spending and the impact and timing of past budget measures.

Non-budgetary transactions provided the government with a net source of funds, amounting to \$5.9 billion, with the result that financial requirements, excluding foreign exchange transactions, were down \$8.7 billion compared to the same period a year ago. However, foreign exchange market transactions gave rise to a net requirement of \$6.3 billion. Thus, total financial requirements, including foreign exchange transactions, stood at \$27.9 billion, up \$3.3 billion from that registered in the same period of 1985-86.

As shown in the above table, the year-to-date growth in revenues continues to converge to the estimate for the fiscal year as a whole, while the growth in budgetary expenditures is identical to that expected for the fiscal year. The projected fiscal year growth rates are affected by the inclusion of 1985-86 supplementary period results and the expected supplementary period results for 1986-87. The projected fiscal year results are consistent with those published in the Economic and Fiscal Outlook document, released on June 18, 1987. These growth rates have been revised from those published in the February 1987 budget.

Budgetary Revenues

Continued strength in economic activity, as well as the impact and timing of measures introduced in the May 1985 and February 1986 budgets, underlie the increase in budgetary revenues. The most important source of budgetary revenue, the personal income tax, accounted for about one-half of the year-over-year increase in total revenues. This increase in personal income tax collections reflected, in part, strong advances in employment, as well as the impact of past budget measures. These measures include the temporary surtax on high-income individuals, effective for the period July 1, 1985 to December 31, 1986, the modification of the indexation formula for tax brackets and personal exemptions, and the introduction of the 3-per-cent surtax on basic federal tax effective July 1, 1986. The impact of these tax measures was offset by the introduction of the refundable sales tax credit.

Strong advances in consumption, coupled with the broadening of the sales tax base and increases in the sales and gasoline excise tax rates account for the advance in sales and excise taxes. However, significantly offsetting the impact of these increases was the elimination of various energy-related taxes as specified under the Western Energy Accord, and the termination of the Petroleum and Gas Revenue Tax as of October 1, 1986. The increase in unemployment insurance contributions primarily reflects the strong advances in employment as premium contribution rates for both 1986 and 1987 have remained at their 1985 levels.

Corporate income tax collections were up 20 per cent in the month of March, the settlement period for most large corporations. This

The Fiscal Monitor

brought the year-to-date increase in collections to 7.4 per cent, considerably higher than anticipated at the time of the February 1987 budget. Higher than expected profits in the Exchange Fund Account account for most of the increase in other revenues.

Budgetary Expenditures

On a year-over-year basis, budgetary expenditures advanced by 4.8 per cent, identical to the revised rate of increase projected for the fiscal year as a whole. Within budgetary expenditures, both program spending and public debt charges increased by 4.8 per cent.

The slowdown in the rate of growth of debt coupled with the effect of lower average effective interest rates on the existing stock of debt continued to dampen the year-over-year increase in public debt charges.

Spending on statutory programs was up 4.4 per cent in the April 1986 to March 1987 period as compared to the same period in 1985-86. This component of government spending is, for the most part, demand-driven or formula-funded, with changes largely reflecting developments in economic activity and in the underlying population bases. The relatively large advance in old age security benefits was due to increases in the population base and in benefits, which are indexed to quarterly changes in the consumer price index. Although the national unemployment rate is down from last year, higher unemployment in those regions most adversely affected by the decline in oil prices has resulted in increased unemployment insurance benefits. The impact on the equalization formula of the robust economic growth in the province of Ontario accounted for most of the increase in fiscal transfer payments. Although cash transfers under Established Programs Financing Arrangements are only 1.2 per cent higher than in 1985-86, total entitlements (cash plus the value of tax transfers) are estimated to be up 4.6 per cent.

In the April to March period, non-statutory program spending rose by 5.4 per cent. Defence

spending was up 6.9 per cent, while spending on other non-statutory programs advanced by 4.8 per cent, largely due to higher transfers to job creation and training, foreign aid, and to the various native programs. Excluding the impact of these payments, spending on the remaining components registered an increase of only 0.5 per cent from that recorded during the same period in 1985-86. Growth in this component of government spending remained restrained due to the actions the government has taken to date to control expenditures, including specific program reductions, the 2-per-cent reduction in person-years and reductions in operating and maintenance costs.

Financial Requirements

Non-budgetary transactions provided a net source of funds amounting to \$5.9 billion in the April to March period, up \$4.2 billion from the level recorded in 1985-86.

With a deficit of \$27.5 billion and a net source of funds from non-budgetary transactions of \$5.9 billion, total financial requirements excluding foreign exchange transactions amounted to \$21.6 billion in 1986-87, compared to \$30.2 billion in 1985-86.

Foreign exchange transactions resulted in a net requirement of \$6.3 billion in 1986-87, compared to a net source of funds of \$5.6 billion in 1985-86. This turnaround was primarily due to developments in the final quarters of both 1985-86 and 1986-87 as the Bank of Canada intervened in the exchange markets to ensure orderly market conditions by dampening excessive movements in the exchange rate.

Due to the developments in foreign exchange transactions, total financial requirements rose by \$3.3 billion in 1986-87 to \$27.9 billion. Net borrowings, particularly in the form of marketable bonds and Treasury bills amounted to \$27.8 billion. Cash balances at the end of March 1987 were \$4.7 billion, down \$0.1 billion from that recorded at the end of 1985-86.

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e Fiscal Monitor

A Quarterly Publication of the Department of Finance

September 1987

Highlights of the Preliminary Financial Results for 1986-87

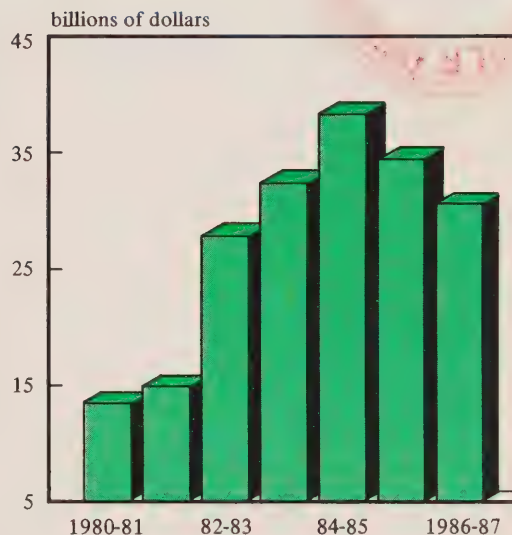
- The federal deficit declined by \$3.8 billion to \$30.6 billion in 1986-87, marking the second year in a row in which the deficit has recorded a significant decline. Since the peak of \$38.3 billion in 1984-85, the deficit has improved by \$7.7 billion.
- The preliminary deficit outcome for 1986-87 of \$30.6 billion represents an improvement of \$0.4 billion from that projected at the time of the June White Paper on Tax Reform and is \$1.4 billion lower than that projected in the February 1987 budget.
- Program expenditures, at \$89.7 billion, were virtually identical to the target first established in the February 1986 budget. This outcome was achieved despite the impact of substantially lower oil and grain prices on statutory program spending.
- As a percentage of gross domestic product (GDP), the deficit has declined by 2.6 percentage points since 1984-85, with budgetary expenditures accounting for two-thirds of this decline.

Summary

Preliminary financial results indicate that the federal government's budgetary deficit for the fiscal year ending March 31, 1987 was \$30.6 billion, down \$3.8 billion from the level registered in 1985-86 and \$7.7 billion below the record \$38.3 billion of 1984-85. This is the first time since the mid-1960s that the deficit has declined for two consecutive years.

The improvement in the deficit since 1984-85 reflects both the strength in the economy, which has resulted in increased budgetary revenues, as well as the savings from the government's expenditure reduction initiatives since the fall of 1984. Excluding the impact of public debt charges, restraint in program expenditures has contributed to nearly three-quarters of the reduction in the deficit as a percentage of GDP since 1984-85.

Deficit in the 1980s



The Fiscal Monitor

Table 1

Preliminary Fiscal Outcome for 1986-87

	1984-85	1985-86	1986-87
	(billions of dollars)		
A. Budgetary transactions			
1. Revenues	70.9	76.8	85.8
2. Expenditures	109.2	111.2	116.4
3. Deficit	-38.3	-34.4	-30.6
B. Non-budgetary transactions			
4. Loans, investments and advances	0.7	.0	1.4
5. Specified purpose accounts	5.1	5.4	6.7
6. Other transactions	2.7	-1.3	1.0
7. Source of funds	8.5	4.1	9.0
C. Financial requirements (excl. foreign exchange transactions)	-29.8	-30.3	-21.6
D. Foreign exchange transactions	2.4	5.6	-6.4
E. Total financial requirements	-27.4	-24.7	-27.9
F. Unmatured debt transactions	26.8	23.5	27.8
G. Year-end cash balances	5.9	4.7	4.6

Table 2

The Fiscal Record

	1984-85	1986-87	Change	Contribution to change
	(as a percentage of GDP)			(per cent)
Budgetary revenues	15.9	16.8	0.9	35
Budgetary expenditures	24.5	22.8	-1.7	65
Deficit	8.6	6.0	-2.6	100
Expenditure components				
Program expenditures	19.5	17.6	-1.9	73
Public debt charges	5.0	5.2	0.2	-8

Table 3

Preliminary Fiscal Outcome for 1986-87 - Budgetary Revenues and Expenditures

	1984-85	1985-86	1986-87	Year-over-year change	Annual average change
	(millions of dollars)			1985-86	1984-85 to 1986-87
				(per cent)	
A. Budgetary revenues					
1. Personal income tax	29,254	33,008	37,878	12.8	13.8
2. Corporate income tax	9,379	9,210	9,885	-1.8	2.7
3. Unemployment insurance contributions	7,553	8,719	9,558	15.4	12.5
4. Sales and excise taxes	14,102	16,913	20,576	19.9	20.8
5. Energy taxes	4,075	2,578	473	-36.7	-65.9
6. Other revenues	6,528	6,402	7,423	-1.9	6.6
7. Total budgetary revenues	70,891	76,830	85,793	8.4	10.0
B. Budgetary expenditures					
1. Statutory programs					
- Unemployment insurance	10,052	10,036	10,444	-0.2	1.9
- Old age security benefits	11,418	12,525	13,445	9.7	8.5
- Established Programs Financing	8,595	8,677	8,839	1.0	1.4
- Fiscal transfers	6,586	6,527	6,926	-0.9	2.5
- Canada Assistance Plan	3,745	3,916	4,051	4.6	4.0
- Family allowances	2,418	2,501	2,534	3.4	2.4
- Other	5,412	5,702	5,869	5.4	4.1
- Total statutory programs	48,226	49,884	52,108	3.4	3.9
2. Non-statutory programs					
- Defence	8,762	9,094	10,006	3.8	6.9
- Official Development Assistance	2,058	1,815	2,256	-11.8	4.7
- Other	27,714	25,000	25,367	-9.8	-4.3
- Total non-statutory programs	38,534	35,909	37,629	-6.8	-1.2
3. Program expenditures	86,760	85,793	89,737	-1.1	1.7
4. Public debt charges	22,455	25,441	26,658	13.3	9.0
5. Total budgetary expenditures	109,215	111,234	116,395	1.8	3.2

La revue financière

Publication trimestrielle du ministère des Finances

Septembre 1987

Résultats financiers préliminaires de 1986-87

Faits saillants

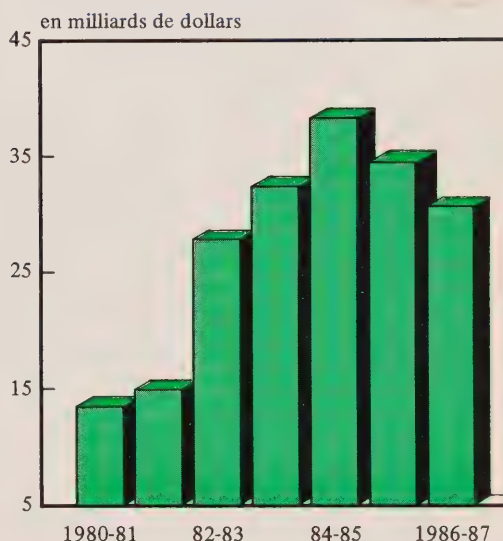
- *Le déficit fédéral a baissé de \$3.8 milliards pour s'établir à \$30.6 milliards en 1986-87, la deuxième année consécutive de baisse sensible du déficit. Depuis son sommet de \$38.3 milliards atteint en 1984-85, le déficit s'est amélioré de \$7.7 milliards.*
- *Les résultats préliminaires de 1986-87 indiquent que le déficit de \$30.6 milliards représente une amélioration de \$0.4 milliard par rapport à la projection publiée à la présentation en juin du Livre blanc sur la réforme fiscale, et s'établit à \$1.4 milliard en-deçà de la prévision budgétaire de février 1987.*
- *Les dépenses de programmes, qui s'établissent à \$89.7 milliards n'ont été que marginalement supérieures à l'objectif de \$89.4 milliards établi la première fois dans le budget de février 1986, et ce résultat a été atteint malgré l'incidence sur les dépenses de programmes statutaires qu'ont eu les prix sensiblement inférieurs du pétrole et des céréales.*
- *Exprimé en pourcentage du produit intérieur brut (PIB), le déficit a diminué de 2.6 points depuis 1984-85, les dépenses budgétaires comptant pour les deux tiers dans cette diminution.*

Résumé

Les résultats financiers préliminaires indiquent que pour l'exercice se terminant le 31 mars 1987 le déficit budgétaire du gouvernement fédéral s'élevait à \$30.6 milliards, soit \$3.8 milliards de moins que le niveau enregistré en 1985-86 et \$7.7 milliards de moins que le niveau record de \$38.3 milliards atteint en 1984-85. Pour la première fois depuis le milieu des années 60, le déficit a diminué deux années consécutives.

La baisse du déficit depuis 1984-85 témoigne à la fois de la vigueur de l'économie, laquelle a entraîné une augmentation des recettes budgétaires, et des épargnes réalisées à la suite des initiatives de compression des dépenses prises par le gouvernement depuis l'automne de 1984. Abstraction faite de l'incidence des frais de la dette publique, la compression des dépenses de programmes a contribué pour près des trois quarts de la diminution du déficit exprimé en pourcentage du PIB depuis 1984-85.

Déficit dans les années 80



financement des programmes établis aient progressé de 1.9 pour cent par rapport à 1985-86, on estime que le total des droits (paiement en espèces plus la valeur des transferts de points d'impôt) sont en hausse d'environ 6 pour cent. Sous-tendant la hausse dans la «autre» catégorie de dépenses de programmes statutaires, figurent des paiements plus élevés effectués en vertu de divers programmes d'aide aux agriculteurs.

Les dépenses de programmes non statutaires ont progressé de 4.8 pour cent contre une baisse de 6.8 pour cent en 1985-86. La baisse enregistrée en 1985-86 était due en grande partie aux initiatives de réduction des dépenses instaurées en novembre 1984 et en mai 1985. Ces initiatives suivies ont sensiblement réduit les niveaux de dépenses des ministères en 1985-86. L'augmentation enregistrée en 1986-87 est due essentiellement à des engagements effectués dans des domaines très prioritaires, comme la défense et l'aide à l'étranger. Par contre, les autres dépenses non statutaires n'ont progressé que de 1.5 pour cent. Le niveau de dépenses des autres programmes non statutaires continue d'être inférieur à celui enregistré en 1984-85, ce qui signifie qu'en termes réels les dépenses de programmes de cette composante ont diminué de plus de 12 pour cent au cours des deux dernières années.

Besoins financiers

Les opérations non budgétaires se sont soldées par une source nette de fonds de \$9.0 milliards en 1986-87, en hausse de \$4.9 milliards par rapport au niveau enregistré en 1985-86.

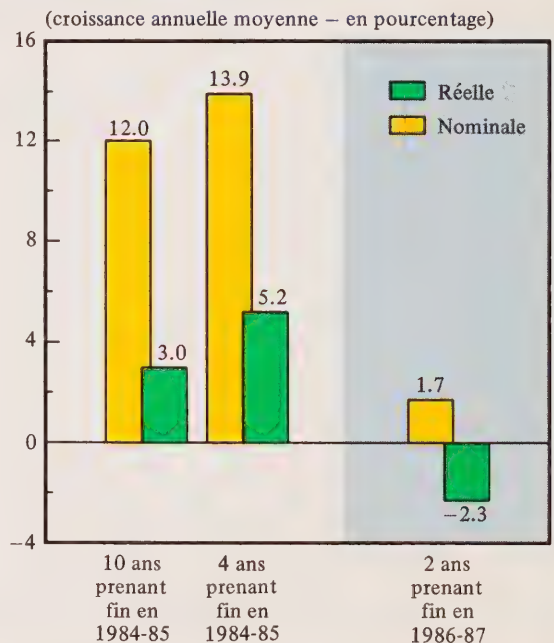
Le déficit s'établissant à \$30.6 milliards et les opérations non budgétaires se soldant par une source nette de fonds de \$9.0 milliards, le total des besoins financiers, opérations de change exclues, s'est établi à \$21.6 milliards en 1986-87, comparativement à \$30.3 milliards en 1985-86.

Les opérations de change se sont soldées par des besoins financiers nets de \$6.4 milliards en 1986-87, comparativement à une source nette de

fonds de \$5.6 milliards en 1985-86. Ce revirement était essentiellement attribuable aux changements survenus au cours des derniers trimestres de 1985-86 et de 1986-87, la Banque du Canada étant intervenue sur les marchés de change pour atténuer les variations excessives du taux de change.

En raison de l'évolution des opérations de change, les besoins financiers totaux ont augmenté de \$3.2 milliards en 1986-87 pour s'établir à \$27.9 milliards. Les emprunts nets, en particulier sous forme d'obligations négociables et de bons du Trésor, se sont établis à \$27.8 milliards. L'encaisse à la fin de mars 1987 s'élevait à \$4.6 milliards, en baisse de \$0.1 milliard par rapport à la fin de 1985-86.

Croissance nominale et réelle des dépenses de programmes



Non-budgetary transactions provided the government with a net source of funds amounting to \$9.0 billion in 1986-87. Thus, financial requirements excluding foreign exchange transactions were \$21.6 billion in 1986-87, down \$8.7 billion from that required in 1985-86.

The deficit was \$0.4 billion lower than that projected in the June White Paper on Tax Reform and \$1.4 billion lower than the deficit forecast in the February 1987 budget. Most of this improvement was related to higher budgetary revenues, primarily non-tax revenues. Total budgetary expenditures were \$0.1 billion lower than expected at the time of the June White Paper on Tax Reform, due entirely to lower public debt charges. Program expenditures, at \$89.7 billion, were only marginally above the February 1986 budget target of \$89.4 billion, and this expenditure outcome was achieved despite the adverse impact of substantially lower oil and grain prices on statutory program spending.

Budgetary Revenues

Continued strength in economic activity, as well as the impact and timing of measures introduced in the May 1985 and February 1986 budgets, underlie the increase in budgetary revenues during 1986-87. The largest component, personal income taxes, accounted for about one-half of the year-over-year increase in total revenues. About three-quarters of the increase in personal income tax revenues was attributable to the strong advances in employment during the last two years with the remainder due to the impact of past budget measures. Strong advances in consumption, coupled with the broadening of the sales tax base and increases in the sales and gasoline excise tax rates, accounted for the advance in sales and excise tax revenues. However, significantly offsetting these revenue increases was the elimination of various energy-related taxes as specified under the Western Energy Accord and the termination of the Petroleum and Gas Revenue Tax on October 1, 1986. The increase in unemployment insurance contributions largely

reflected the strong advances in employment as premium contribution rates for both 1986 and 1987 have remained at their 1985 levels.

Although corporate profits declined in 1986, due largely to the impact of lower oil prices on the oil and gas sector, corporate income tax collections rose by 7.3 per cent in 1986-87. This reflected, in part, the impact of measures introduced in the May 1985 and February 1986 budgets, as well as the healthy growth in profits in the non-energy sector. Higher profits from the Foreign Exchange Fund, reflecting the strength in the Canadian dollar in the latter months of 1986-87, accounted for most of the increase in other revenues.

Budgetary Expenditures

Budgetary expenditures increased by 4.6 per cent in 1986-87, up from the increase of 1.8 per cent in 1985-86. Since 1984-85, budgetary expenditures have increased at an annual rate of 3.2 per cent, well below the rate of inflation.

The slowdown in the rate of growth of debt, coupled with the effect of lower average effective interest rates on the existing stock of debt, significantly dampened the increase in public debt charges. Public debt charges advanced by only 4.8 per cent in 1986-87, following an increase of 13.3 per cent in 1985-86.

The advance of 4.5 per cent in statutory program spending, which for the most part is demand-driven or formula-funded, largely reflected developments in economic activity and in the underlying population bases. Although the national unemployment rate declined in 1986-87, the sectoral composition of unemployment was affected by the sharp decline in oil prices and as a result unemployment insurance benefit payments were higher. The relatively large advance in old age security benefits was due to increases in the population base and in benefits, which are indexed to quarterly changes in the consumer price index. The impact of robust economic growth in Ontario on the

The Fiscal Monitor

equalization formula accounted for most of the increase in fiscal transfer payments. Cash transfers under Established Program Financing Arrangements were 1.9 per cent higher than in 1985-86, but total entitlements (cash plus the value of tax transfers) are estimated to be about 6 per cent higher. Underlying the increase in the "other" statutory program spending category was substantially higher payments under the various farm income support programs.

Non-statutory program spending rose by 4.8 per cent, following a decline of 6.8 per cent in 1985-86. The decline in 1985-86 was largely due to the expenditure reduction initiatives introduced in November 1984 and May 1985. These initiatives, which are ongoing, significantly lowered departmental spending levels in 1985-86. The increase in 1986-87 was due largely to commitments in high priority areas, such as defence and foreign aid. In contrast, other non-statutory spending advanced by only 1.5 per cent. The level of spending on other non-statutory programs continues to be less than that recorded in 1984-85, so that in real terms expenditures in this component of program spending have declined by over 12 per cent over the last two years.

Financial Requirements

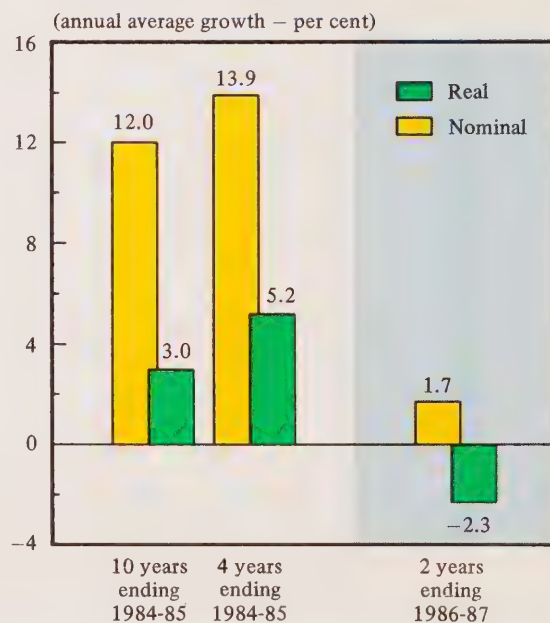
Non-budgetary transactions provided a net source of funds amounting to \$9.0 billion in 1986-87, up \$4.9 billion from the level recorded in 1985-86.

With a deficit of \$30.6 billion and a net source of funds from non-budgetary transactions of \$9.0 billion, total financial requirements, excluding foreign exchange transactions, amounted to \$21.6 billion in 1986-87, compared to \$30.3 billion in 1985-86.

Foreign exchange transactions resulted in a net requirement of \$6.4 billion in 1986-87, compared to a net source of funds of \$5.6 billion in 1985-86. This turnaround was due primarily to developments in the final quarters of both 1985-86 and 1986-87 as the Bank of Canada intervened in the exchange markets to ensure orderly market conditions by dampening excessive movements in the exchange rate.

Due to the developments in foreign exchange transactions, total financial requirements increased by \$3.2 billion in 1986-87 to \$27.9 billion. Net borrowings, particularly in the form of marketable bonds and Treasury bills, amounted to \$27.8 billion. Cash balances at the end of March 1987 were \$4.6 billion, down \$0.1 billion from the end of 1985-86.

Nominal and Real Program Expenditure Growth



The information in this Monitor is based on preliminary financial statements for the year ended March 31, 1987. For further information contact: L.A. Langlois 996-7397 or P. DeVries 992-5977. Cet imprimé est également offert en français.



he Fiscal Monitor

A Quarterly Publication of the Department of Finance

October 1987

Highlights of the Preliminary Financial Results for April - June 1987

- In the first quarter of 1987-88, the federal deficit, at \$7.1 billion, was \$1.2 billion lower than that recorded in the corresponding period in 1986-87.
- Accompanying the strong economic performance in the first half of 1987, particularly the advances in employment and profits, revenues increased by 14.2 per cent.
- Total spending was up 5.5 per cent, with program spending increasing 6.9 per cent. The growth in public debt charges was held to only 1.5 per cent.
- The increase in program spending was led by almost a \$1 billion increase in spending under various agriculture assistance programs, particularly the Special Canadian Grains and Western Grains Stabilization programs.

Summary

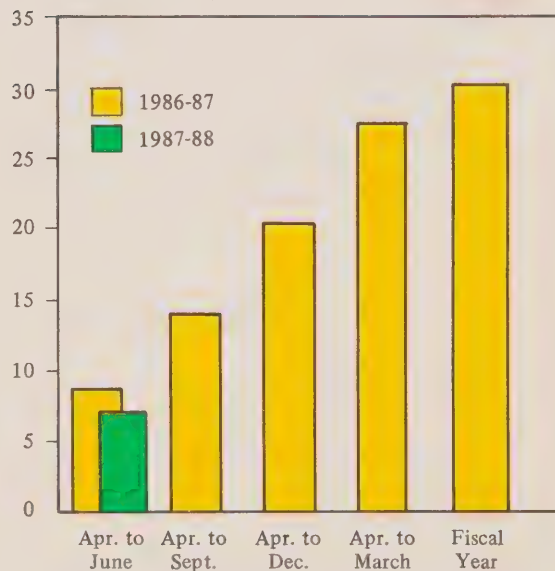
In the first quarter of 1987-88 (April to June), the budgetary deficit was \$7.1 billion, down \$1.2 billion from the level registered in the first quarter of 1986-87. This year-over-year improvement in the deficit reflected, in large part, the strength in the Canadian economy in the first half of 1987, which has resulted in increased budgetary revenues and lower unemployment insurance benefit payments. The deficit, on a year-over-year basis, was also influenced by the timing of various receipts and payments.

Non-budgetary transactions, in the April to June period of 1987, resulted in a net requirement of funds, amounting to \$0.6 billion, compared to a net source of funds of \$1.4 billion in the same period last year. This was due primarily to the impact of the advance mailing of social assistance cheques in June in anticipation of the letter carriers' dispute. As a result, financial

Federal Deficit 1986-87 and 1987-88

Year to Date

billions of dollars



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Table 1

Summary Statement of Transactions

	April to June		Per cent change
	1986-87	1987-88	
	(millions of dollars)		
A. Budgetary transactions			
1. Revenues	18,503	21,125	14.2
2. Expenditures	26,758	28,223	5.5
3. Deficit	-8,255	-7,098	-14.0
B. Non-budgetary transactions			
4. Loans, investments and advances	129	49	
5. Specified purpose accounts	1,612	1,321	
6. Other transactions	-362	-1,997	
7. Net source (+)/requirement (-)	1,379	-627	
C. Financial requirements (excluding foreign exchange transactions)	-6,876	-7,725	
D. Foreign exchange transactions: net source (+)/requirement (-)	-1,329	1,540	
E. Total financial requirements	-8,205	-6,185	
F. Unmatured debt transactions	6,587	2,369	
G. Cash balance at end of period	3,126	802	

Table 2

Budgetary Revenues and Expenditures

	April to June		Per cent change
	1986-87	1987-88	
	(millions of dollars)		
A. Budgetary revenues			
1. Personal income tax	8,066	9,773	21.2
2. Corporate income tax	1,757	2,073	18.0
3. Unemployment insurance contributions	2,268	2,440	7.6
4. Sales and excise taxes/duties	4,736	4,886	3.2
5. Other revenues	1,676	1,953	16.5
6. Total budgetary revenues	18,503	21,125	14.2
B. Budgetary expenditures			
1. Statutory programs			
- Old age security benefits	3,269	3,483	6.5
- Unemployment insurance benefits	2,709	2,567	-5.2
- Established Programs Financing	2,271	2,201	-3.1
- Fiscal transfers	1,672	1,714	2.5
- Canada Assistance Plan	1,043	1,162	11.4
- Family allowances	633	637	0.6
- Other	1,554	1,986	27.8
- Total statutory programs	13,151	13,750	4.6
2. Non-statutory programs			
- Defence	1,757	1,805	2.7
- Other	4,883	5,594	14.6
- Total non-statutory programs	6,640	7,399	11.4
3. Total program expenditures	19,791	21,149	6.9
4. Public debt charges	6,967	7,074	1.5
5. Total budgetary expenditures	26,758	28,223	5.5

requirements, excluding foreign exchange transactions, amounted to \$7.7 billion, up \$0.8 billion from that required in the first quarter of 1986-87. Foreign exchange transactions gave rise to a net source of funds, amounting to \$1.5 billion in the first quarter of 1987-88. Total financial requirements, including foreign exchange requirements, stood at \$6.2 billion, down \$2 billion from the 1986-87 level.

While the first quarter results for the 1987-88 budgetary deficit are encouraging, simple extrapolation of one quarter's performance can give a misleading impression of the likely outcome for the fiscal year as a whole. Quarterly figures exhibit wide fluctuations given the uneven timing of certain payments and receipts and effective dates of policy measures.

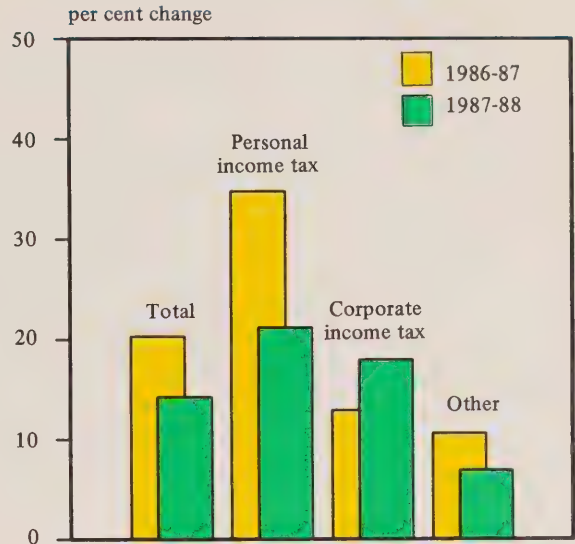
Budgetary Revenues

Strong advances in personal and corporate income tax receipts, along with the inclusion of the proceeds from the sale of Teleglobe Canada, underlie the growth in budgetary revenues during the first quarter of 1987-88. The robust year-over-year increases in personal and corporate income tax collections have accompanied the strength in economic activity in the first half of 1987, particularly the significantly higher levels of employment and corporate profits. Also contributing to the year-over-year growth in personal income tax collections was the impact of the prepayment of a portion of the refundable child tax credit in November 1986, which resulted in lower refunds in the first quarter of 1987-88.

In contrast, the growth in sales and excise tax receipts slowed in the first quarter of 1987-88 and was up only 3.2 per cent over the same period in 1986-87, despite strong growth in consumption expenditures. The growth rate in the first quarter of 1987-88 was affected by the final round of tariff rate reductions as specified under the 1979 Multilateral Trade Negotiations Agreement, a reduction in the quarterly indexation factor on the sales tax rate for gasoline and diesel fuel, as well as the elimination of the Petroleum and Gas Revenue Tax, effective October 1986.

Budgetary Revenues: 1986-87 and 1987-88

April to June Year-Over-Year Growth



The growth in budgetary revenues is generally in line with that expected in the June White Paper for the fiscal year as a whole with the exception of the very robust increase in corporate income tax collections. However, as a major portion of tax receipts from this source is collected in the final quarter of the fiscal year, it is extremely difficult to gauge the trend for the full fiscal year from receipts for the first quarter of the year.

Budgetary Expenditures

On a year-over-year basis, budgetary expenditures increased by 5.5 per cent. Looking at the major components of budgetary expenditures, public debt charges advanced by only 1.5 per cent, while program spending was up 6.9 per cent or up \$1.4 billion on a year-over-year basis. Of this increase, nearly \$1 billion was due to higher expenditures under various agricultural assistance programs, such as the Western Grain Stabilization Act, the Western Grain Transportation Act and the Special Canadian Grains Program.

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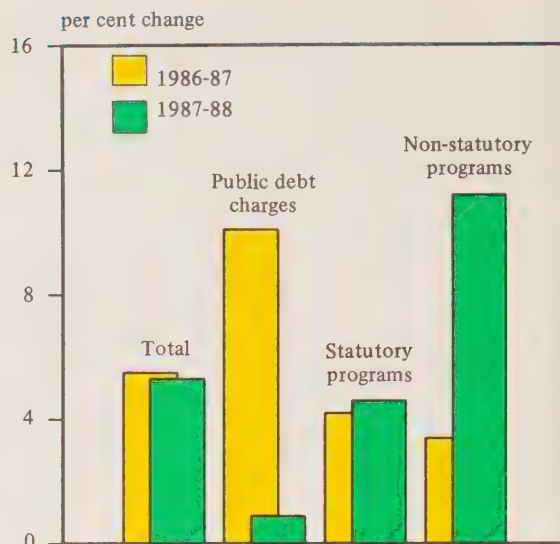
The slowdown in the rate of growth of public debt, coupled with lower average effective interest rates on the existing stock of debt, continued to dampen the year-over-year increase in public debt charges. However, the increases in interest rates since the first quarter of 1987-88 will exert upward pressure on public debt charges over the balance of the fiscal year.

Spending on statutory programs was up 4.6 per cent in the first quarter of 1987-88 compared to the same period in 1986-87. This component of government spending is for the most part either demand-driven, or formula-funded, with changes largely reflecting developments in economic activity and the underlying population bases. The increase in old age security payments was due to increases in the eligible population base and in benefits, which are indexed to quarterly changes in the consumer price index. The relatively large increase in payments under the Canada Assistance Plan reflects retroactive payments to the province of Ontario. A higher interim payment to farmers under the Western Grain Stabilization Act and increased payments to railways under the Western Grain Transportation Act account for the large advance in the "other" statutory program spending category. Unemployment insurance benefit payments were lower, reflecting lower levels of unemployment. The impact of prior-year adjustments restrained the year-over-year increases in transfers to provinces under Established Program Financing and other fiscal transfer arrangements.

Non-statutory program spending rose by 11.4 per cent in the first quarter of 1987-88, largely due to the payments to farmers under the Special Canadian Grains Program. Excluding the impact of these payments, spending on all other major components within this category advanced by only 2 per cent from that recorded in the same period of 1986-87.

Budgetary Expenditures: 1986-87 and 1987-88

April to June Year-Over-Year Growth



Financial Requirements

Non-budgetary transactions resulted in a net requirement of \$0.6 billion, compared to a net source of funds of \$1.4 billion in April-June 1986. This turnaround resulted from the larger-than-normal encashment of cheques in the month of June, due in part to the advance mailing of social assistance cheques in anticipation of postal disruptions.

Financial requirements, excluding foreign exchange transactions, amounted to \$7.7 billion in the first quarter of 1987-88. With foreign exchange transactions providing a net source of funds of \$1.5 billion, total financial requirements stood at \$6.2 billion. This was financed by net borrowing of \$2.4 billion and a \$3.8 billion drawdown of the government's cash balances.

The information in this Monitor is based on preliminary financial statements for the quarter ended June 30, 1987. For further information contact: L.A. Langlois 996-7397 or P. DeVries 992-5977. Cet imprimé est également offert en français.



he Fiscal Monitor

A Publication of the Department of Finance

December 1987

Highlights of the Preliminary Financial Results for April - September 1987

- In the first half of fiscal year 1987-88, the federal deficit, at \$12.0 billion, was \$2.2 billion lower than in the corresponding period in 1986-87.
- Accompanying the strong economic performance in the first three quarters of 1987, particularly the robust advances in employment and profits, revenues increased by 10.7 per cent in the first half of 1987-88.
- Total spending was up 3.8 per cent on a year-over-year basis, with program spending increasing 4.8 per cent and public debt charges increasing by only 1.0 per cent.
- The increase in program spending was mainly influenced by large increases in spending under various agricultural assistance programs, particularly the Special Canadian Grains Program and the Western Grain Stabilization Program.

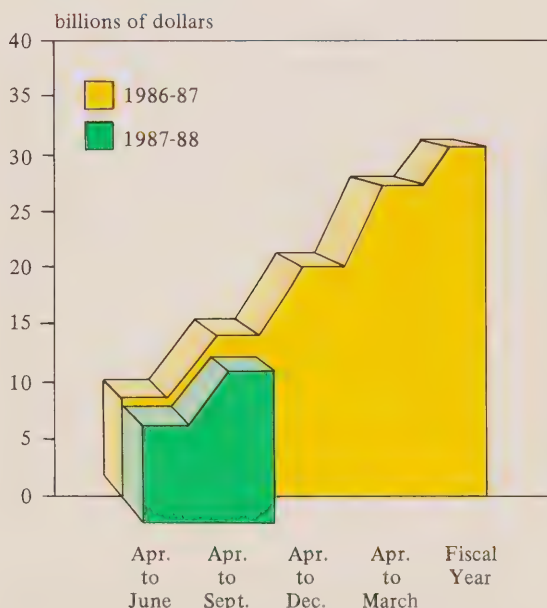
Summary

In the first half of fiscal year 1987-88 (April to September), the budgetary deficit was \$12.0 billion, down \$2.2 billion from the level registered in the first half of 1986-87. This year-over-year improvement in the deficit largely reflects the strength in the Canadian economy in 1987, which has resulted in increased budgetary revenues and has moderated the growth in budgetary expenditures. As well, the deficit, on a year-over-year basis, continued to be influenced by the timing of various receipts and payments, especially in the areas of public debt charges and major transfer payments.

Non-budgetary transactions, in the first half of 1987-88, provided the government with a net source of funds amounting to \$1.6 billion, compared to \$3.7 billion in the same period of 1986-87. As a result, financial requirements, excluding foreign exchange transactions, at \$10.4 billion, were down only \$0.1 billion on a year-over-year basis. Foreign exchange transactions gave rise to a net source of funds amounting to \$0.6 billion in the first half of 1987-88, whereas in the comparable period in 1986-87 there was a net requirement of \$1.6 billion. Thus, total financial requirements,

including foreign exchange requirements, stood at \$9.8 billion, down \$2.3 billion from the level recorded in the first half of 1986-87.

Federal Deficit 1986-87 and 1987-88 Year to Date



The Fiscal Monitor

Table 1

Summary Statement of Transactions

	April to September		Per cent change
	1986-87	1987-88	
	(millions of dollars)		
A. Budgetary transactions			
1. Revenues	39,866	44,125	10.7
2. Expenditures	54,070	56,142	3.8
3. Deficit	- 14,204	- 12,017	- 15.4
B. Non-budgetary transactions			
4. Loans, investments and advances	565	- 63	
5. Specified purpose accounts	3,242	3,338	
6. Other transactions	- 62	- 1,643	
7. Net source (+)/requirement (-)	3,745	1,632	
C. Financial requirements (excluding foreign exchange transactions)	- 10,459	- 10,385	
D. Foreign exchange transactions: net source (+)/requirement (-)	- 1,595	609	
E. Total financial requirements	- 12,054	- 9,776	
F. Unmatured debt transactions	9,222	7,854	
G. Cash balance at end of period	1,912	2,696	

Table 2

Budgetary Revenues and Expenditures

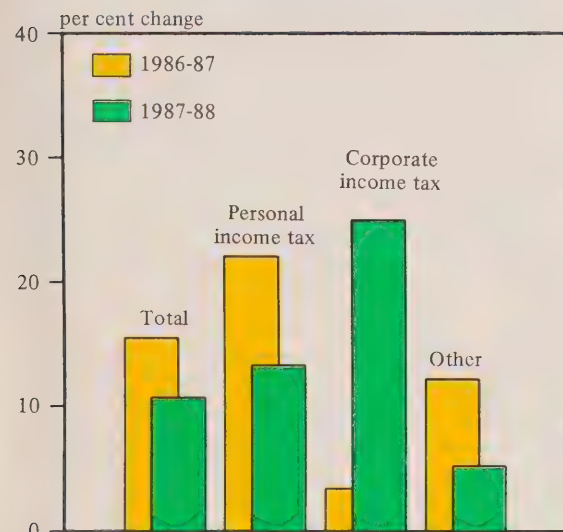
	April to September		Per cent change
	1986-87	1987-88	
	(millions of dollars)		
A. Budgetary revenues			
1. Personal income tax	18,061	20,461	13.3
2. Corporate income tax	3,652	4,564	25.0
3. Unemployment insurance contributions	4,620	5,015	8.5
4. Sales and excise taxes/duties	10,409	10,713	2.9
5. Other revenues	3,124	3,372	7.9
6. Total budgetary revenues	39,866	44,125	10.7
B. Budgetary expenditures			
1. Statutory programs			
- Old age security benefits	6,600	7,047	6.8
- Unemployment insurance benefits	4,913	4,862	- 1.0
- Established Programs Financing	4,479	4,416	- 1.4
- Fiscal transfers	3,239	3,541	9.3
- Canada Assistance Plan	2,026	2,180	7.6
- Family allowances	1,264	1,279	1.2
- Other	2,601	3,096	19.0
- Total statutory programs	25,122	26,421	5.2
2. Non-statutory programs			
- Defence	4,125	4,122	- 0.1
- Other	11,235	11,871	5.7
- Total non-statutory programs	15,360	15,993	4.1
3. Total program expenditures	40,482	42,414	4.8
4. Public debt charges	13,588	13,728	1.0
5. Total budgetary expenditures	54,070	56,142	3.8

Budgetary Revenues

Strong advances in personal and corporate income tax receipts, along with the inclusion of the proceeds from the sale of Teleglobe Canada, underlie the growth in budgetary revenues during the first half of 1987-88. The robust year-over-year increases in personal and corporate income tax collections have accompanied the strength in economic activity in 1987, particularly the significantly higher levels of employment and corporate profits. Also contributing to the year-over-year growth in personal income tax collections was the impact of the prepayment of a portion of the refundable child tax credit in November 1986, which resulted in lower refunds in the first half of 1987-88. Significantly higher employment levels, coupled with an increase in maximum insurable earnings, underlie the strength in unemployment insurance contributions.

Budgetary Revenues: 1986-87 and 1987-88

April to September Year-Over-Year Growth



In contrast, the growth in sales and excise tax receipts was up only 2.9 per cent over the same period in 1986-87 despite strong growth in consumer and business expenditures. Growth in sales and excise tax receipts the first half of 1987-88 was in part affected by the final round of tariff rate reductions as specified under the 1979 Multilateral Trade Negotiations Agreement. A reduction in the quarterly indexation factor

on the sales tax rate for gasoline and diesel fuel, as well as the elimination of the Petroleum and Gas Revenue Tax effective October 1986, also dampened sales and excise tax revenue growth.

The expansion in total budgetary revenues remains generally in line with that expected in the June White Paper for the fiscal year as a whole. However, growth in some of the components will likely differ as corporate income tax collections are more robust than anticipated in the June White Paper while commodity tax revenues are somewhat weaker. Nevertheless, as a major portion of corporate tax receipts is collected in the final quarter of the fiscal year, it is difficult to gauge the trend for the full fiscal year from receipts for the first half of the year.

Budgetary Expenditures

On a year-over-year basis, budgetary expenditures increased by 3.8 per cent over the first half of fiscal year 1987-88. Public debt charges increased by only 1.0 per cent while program spending was up 4.8 per cent, or \$1.9 billion, on a year-over-year basis. Of this increase in program expenditures, nearly \$1 billion was due to higher expenditures under various agricultural assistance programs.

The slowdown in the rate of growth of public debt, coupled with lower average effective interest rates on the existing stock of debt, continued to dampen the year-over-year increase in public debt charges. However, the increases in interest rates since the second quarter of the 1987-88 fiscal year will exert upward pressure on public debt charges over the balance of the fiscal year.

Spending on statutory programs was up 5.2 per cent in the first half of 1987-88 compared to the same period in 1986-87. This component of government spending, which accounts for about two-thirds of total program spending, is for the most part either demand-driven, or formula-funded, with changes largely reflecting developments in economic activity and the underlying population bases. The increase in old age security payments was due to increases in both the eligible population base and in the level of benefits, which are indexed to quarterly changes in the consumer price index. The

The Fiscal Monitor

impact on the equalization formula of strong increases in overall provincial revenues accounted for most of the increase in fiscal transfer payments. The relatively large increase in payments under the Canada Assistance Plan reflects retroactive payments to the Province of Ontario. Higher interim payments to farmers under the Western Grain Stabilization Act and increased payments to railways under the Western Grain Transportation Act account for the large advance in the "other" statutory program spending category. Unemployment insurance benefit payments were lower, reflecting lower levels of unemployment. Although the total federal contribution to provinces under the Established Programs Financing arrangement is up by about 5 per cent, direct cash transfers are down as the impact of strong growth on income tax revenues has resulted in higher transfers through the tax system.

Non-statutory program spending rose by 4.1 per cent in the first half of 1987-88, with all the increase due to the payment to farmers under the Special Canadian Grains Program. Excluding the impact of these payments, which amounted to nearly \$700 million in the first half of fiscal year 1987-88, spending on the remaining components of this category recorded a marginal decline. Part of this decline related to the timing of payments, especially in the areas of defence, foreign aid and payments under various native programs, all of which are expected to pick up in the second half of 1987-88. The direct operating costs of the government remained restrained, declining by about 4 per cent in nominal terms and by about 8.5 per cent in real terms over the comparable period in 1986-87.

Financial Requirements

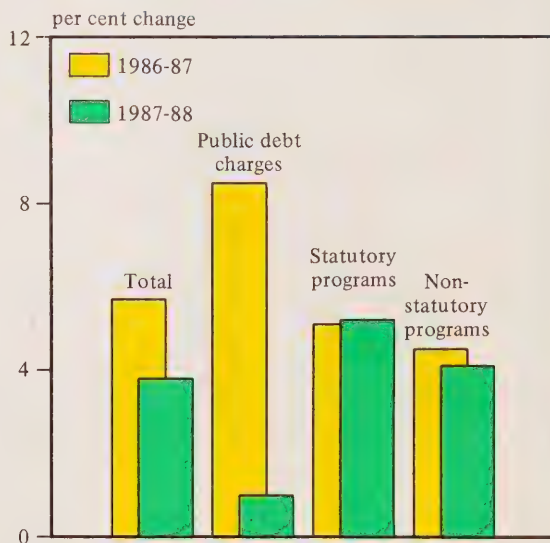
Non-budgetary transactions in the first half of 1987-88 resulted in a net source of funds amounting to \$1.6 billion, compared to \$3.7 billion in the comparable period of 1986-87. This lower net source of funds was due to a

number of factors, including lower net loan repayments by the Farm Credit Corporation and the impact of lower interest rates on the interest and unmatured debt accounts.

Financial requirements, excluding foreign exchange transactions, remained virtually unchanged from the level recorded during the same period in 1986-87, as the improvement in the budgetary deficit was offset by lower net funds from non-budgetary transactions. In contrast, foreign exchange transactions provided a net source of funds of \$0.6 billion, compared to a net requirement of \$1.6 billion in the first half of 1986-87. As a result, total financial requirements in the first half of 1987-88 stood at \$9.8 billion, down \$2.3 billion from that reported during the comparable period in fiscal year 1986-87. Net borrowing in the first half of 1987-88 amounted to \$7.9 billion, while cash balances were reduced by \$1.9 billion to stand at \$2.7 billion at the end of September 1987.

Budgetary Expenditures: 1986-87 and 1987-88

April to September Year-Over-Year Growth



The information in this Monitor is based on preliminary financial statements for the month ending September 30, 1987. For further information contact: L.A. Langlois 996-7397 or P. DeVries 992-5977. Cet imprimé est également offert en français.



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The Fiscal Monitor

A Publication of the Department of Finance

March 1988

Highlights of Financial Results for April - December 1987

- In the first nine months of fiscal year 1987-88, the federal deficit, at \$17.7 billion, was \$2.9 billion lower than in the corresponding period in 1986-87.
- Accompanying the strong economic performance in 1987, particularly the robust advances in employment and profits, revenues increased by 10.5 per cent on a year-over-year basis.
- Total spending was up 4.4 per cent on a year-over-year basis, with program spending increasing 4.3 per cent and public debt charges increasing 4.8 per cent.
- The increase in program spending continued to be influenced by large increases in spending under various agricultural assistance programs, particularly the Special Canadian Grains Program and the Western Grain Stabilization Program.

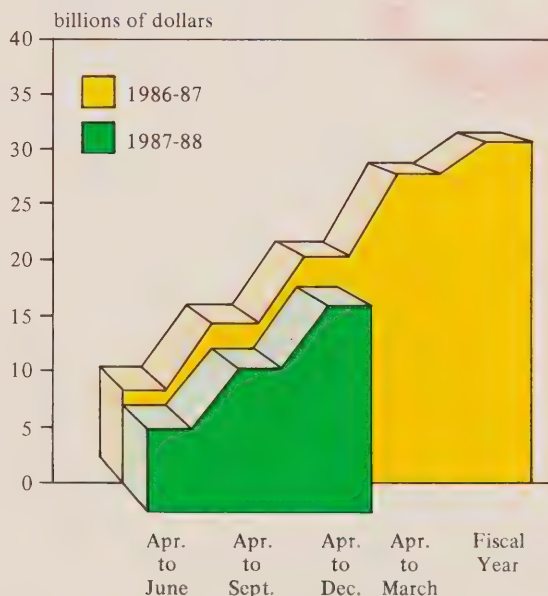
Summary

In the first nine months of fiscal year 1987-88 (April to December), the budgetary deficit was \$17.7 billion, down \$2.9 billion from the level registered in the first three quarters of 1986-87. This year-over-year improvement in the deficit reflects the strength in the Canadian economy in 1987, which has resulted in increased budgetary revenues and has continued to moderate the growth in budgetary expenditures. As well, the deficit, on a year-over-year basis, continued to be influenced by the timing of various receipts and payments, especially in the areas of public debt charges and major transfer payments, and the ongoing impacts of actions taken to control expenditures.

Non-budgetary transactions, in the first three quarters of 1987-88, provided the government with a net source of funds amounting to \$1.3 billion, compared to \$2.9 billion in the same period of 1986-1987. Financial requirements, excluding foreign exchange transactions, were \$16.4 billion, down \$1.3 billion on a year-over-year basis. Foreign exchange transactions gave rise to a net source of funds amounting to \$0.5 billion in the first nine months of 1987-88, whereas in the comparable period in 1986-87 there was a net

requirement of \$0.6 billion. Thus, total financial requirements, including foreign exchange requirements, stood at \$15.9 billion, down \$2.3 billion from the level recorded in the same period of 1986-87.

**Federal Deficit
1986-87 and 1987-88
Year to Date**



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Table 1

Summary Statement of Transactions

	April to December		Per cent change
	1986-87	1987-88	
	(millions of dollars)		
A. Budgetary transactions			
1. Revenues	62,095	68,641	10.5
2. Expenditures	82,677	86,309	4.4
3. Deficit	- 20,582	- 17,668	- 14.2
B. Non-budgetary transactions			
4. Loans, investments and advances	630	174	
5. Specified purpose accounts	4,945	5,577	
6. Other transactions	- 2,667	- 4,494	
7. Net source (+) or requirement (-)	2,908	1,257	
C. Financial requirements (excluding foreign exchange transactions)	- 17,674	- 16,411	
D. Foreign exchange transactions: net source (+) or requirement (-)	- 553	471	
E. Total financial requirements	- 18,227	- 15,940	
F. Unmatured debt transactions	16,994	14,466	
G. Cash balance at end of period	3,511	3,145	

Table 2

Budgetary Revenues and Expenditures

	April to December		Per cent change
	1986-87	1987-88	
	(millions of dollars)		
A. Budgetary revenues			
1. Personal income tax	28,121	31,917	13.5
2. Corporate income tax	5,837	6,921	18.6
3. Unemployment insurance contributions	7,190	7,623	6.0
4. Sales and excise taxes/duties	15,743	16,744	6.4
5. Other revenues	5,204	5,436	4.5
6. Total budgetary revenues	62,095	68,641	10.5
B. Budgetary expenditures			
1. Statutory programs			
- Old age security benefits	10,047	10,680	6.3
- Unemployment insurance benefits	7,339	7,190	- 2.0
- Established Programs Financing*	6,708	6,560	- 2.2
- Fiscal transfers	4,736	5,265	11.2
- Canada Assistance Plan	3,044	3,269	7.4
- Family allowances	1,895	1,916	1.1
- Other	4,156	5,031	21.1
- Total statutory programs	37,925	39,911	5.2
2. Non-statutory programs			
- Defence	6,555	6,606	0.8
- Other	17,780	18,403	3.5
- Total non-statutory programs	24,335	25,009	2.8
3. Total program expenditures	62,260	64,920	4.3
4. Public debt charges	20,417	21,389	4.8
5. Total budgetary expenditures	82,677	86,309	4.4

* Cash portion only. Including the tax portion, total entitlements are expected to grow by 5 per cent.

Budgetary Revenues

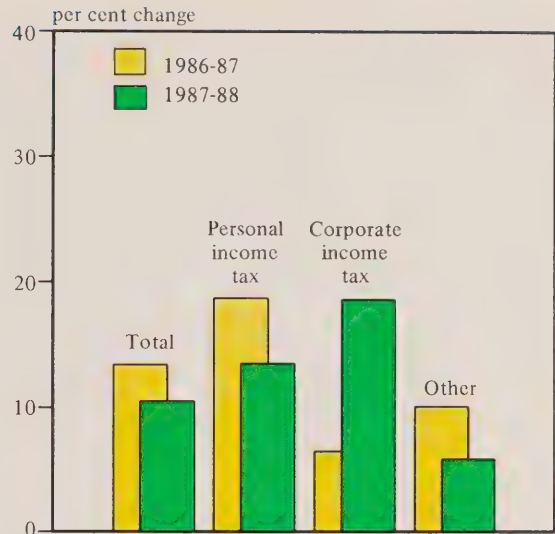
Strong advances in personal and corporate income tax receipts, along with the inclusion of the proceeds from the sale of Teleglobe Canada, underlie the growth in budgetary revenues during the first nine months of 1987-88. The robust year-over-year increases in personal and corporate income tax collections reflect, in large measure, the strength in economic activity in 1987, particularly the significantly higher levels of employment and corporate profits. The year-over-year growth in personal income tax collections was also affected by the first prepayment of a portion of the refundable child tax credit in November 1986, which had dampened collections in 1986-87. Significantly higher employment levels, coupled with an increase in maximum insurable earnings, underlie the strength in unemployment insurance contributions.

Sales and excise tax receipts were up 6.4 per cent over the same period in 1986-87. The impact of strong growth in consumer and business expenditures on sales and excise tax collections was dampened, to a certain extent, by a number of discretionary actions. These actions included the final round of tariff rate reductions as specified under the 1979 Multilateral Trade Negotiations Agreement, the reductions in the quarterly indexation factor on the sales tax rate for gasoline and diesel fuel as well as the elimination of the Petroleum and Gas Revenue Tax, effective October 1986. The sale of Teleglobe Canada accounts for all of the year-over-year increase in the other revenue component, as the other elements within this component recorded a decline.

Budgetary revenues collected over the April to December period are consistent with the February 1988 budget projection for the fiscal year as a whole. Differences in growth rates between the current year-to-date results and those for the year as a whole largely relate to timing considerations. For example, the April to December increase in personal income tax collections is somewhat less than that projected in the February 1988 budget for the fiscal year as a whole. This difference is due to the impact of accelerating the receipt of personal income tax deductions at source from large employers in the final quarter of 1987-88, which is expected to result in a one-time increase in revenues of \$1.2 billion. This acceleration of source

Budgetary Revenues: 1986-87 and 1987-88

April to December Year-Over-Year Growth



deductions impacts on large employers only and has no effect on an individual's personal income tax liability.

Budgetary Expenditures

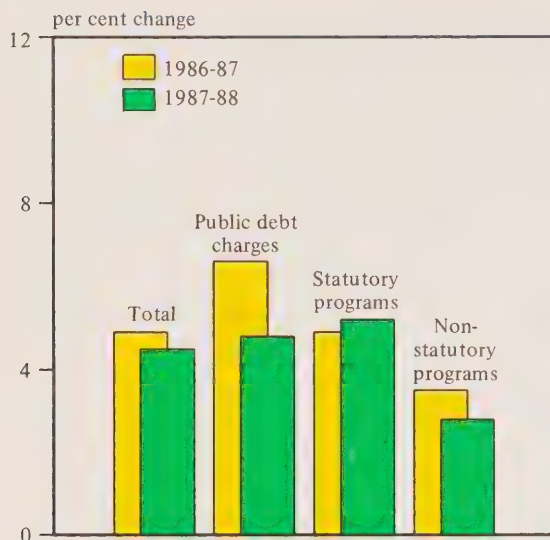
On a year-over-year basis, budgetary expenditures increased by 4.4 per cent over the first nine months of fiscal year 1987-88. Public debt charges increased by 4.8 per cent while program spending was up by 4.3 per cent, or \$2.7 billion. Of the increase in program expenditures, nearly \$1.6 billion was due to higher expenditures under the various agricultural assistance programs.

Statutory programs are largely demand-driven, or formula-funded, with changes reflecting developments in economic activity and the underlying population bases. This component of government spending, which accounts for about two-thirds of total program spending, increased by 5.2 per cent in the first nine months of 1987-88 compared to the same period in 1986-87. The increase in old age security payments was due to increases in both the eligible population base and in the level of benefits, which are indexed to quarterly changes in the consumer price index. The impact on the equalization formula of strong increases in overall provincial revenues accounted for most of the increase in fiscal transfer payments. Final payments to farmers under the Western Grain

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Budgetary Expenditures: 1986-87 and 1987-88

April to December Year-Over-Year Growth



Stabilization Act with respect to the 1986 crop year and increased payments to railways under the Western Grain Transportation Act account for the large advance in the "other" statutory program spending category. Unemployment insurance benefit payments were below those recorded in the previous fiscal year, reflecting the lower levels of unemployment. Although the total federal contribution to provinces under Established Programs Financing arrangements is up by about 5 per cent, direct cash payments to provinces declined on a year-over-year basis, as the impact of strong growth in income tax revenues resulted in higher transfers through the tax system.

The payment to farmers in the first quarter of 1987-88 under the Special Canadian Grains Program accounted for virtually all of the increase in non-statutory program spending in the first nine months of 1987-88. Spending on the remaining components of this category remained restrained largely due to the phasing-out of the Petroleum Incentive Program and the actions that the government has undertaken to control direct operating costs.

Timing considerations account for the difference in growth rates between the year-to-date increase in budgetary expenditures and that projected for the fiscal year as a whole, as set out in the February 1988 budget. Payments of \$1.1 billion under the second Special Canadian Grains Program were announced in December 1987, of which \$800 million is to be paid in the final quarter of 1987-88. In addition, as announced in the February 1988 budget, approximately \$250 million of expenditures originally targeted for 1988-89 will be brought forward into 1987-88. Higher interest rates in the last half of 1987 will continue to exert upward pressure on public debt charges. Payments under various native programs and foreign aid are also expected to pick up in the last quarter of the fiscal year.

Financial Requirements

Non-budgetary transactions in the first nine months of 1987-88 resulted in a net source of funds amounting to \$1.3 billion, compared to \$2.9 billion in the comparable period of 1986-87. This lower source of funds was due to a number of factors, including lower loan repayments by the Farm Credit Corporation and the impact of lower interest rates on the interest and unmatured debt accounts.

On a year-over-year basis, financial requirements, excluding foreign exchange transactions, declined by \$1.3 billion to \$16.4 billion during the first nine months of 1987-88, as the improvement in the budgetary deficit of \$2.9 billion more than offset the reduction in net funds from non-budgetary transactions. Foreign exchange transactions provided a net source of funds of \$0.5 billion, compared to a net requirement of \$0.6 billion in the first nine months of 1986-87. As a result, total financial requirements in the first nine months of 1987-88 stood at \$15.9 billion, down \$2.3 billion from that reported during the comparable period in fiscal year 1986-87. This was financed by net borrowing, primarily in the form of Canada Savings Bonds and other marketable bonds, of \$14.5 billion and a \$1.5 billion drawdown in cash balances.

The information in this Monitor is based on preliminary financial statements for the month ending December 31, 1987. For further information contact: L.A. Langlois 996-7397 or P. DeVries 996-7380. Cet imprimé est également offert en français.



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July 1988

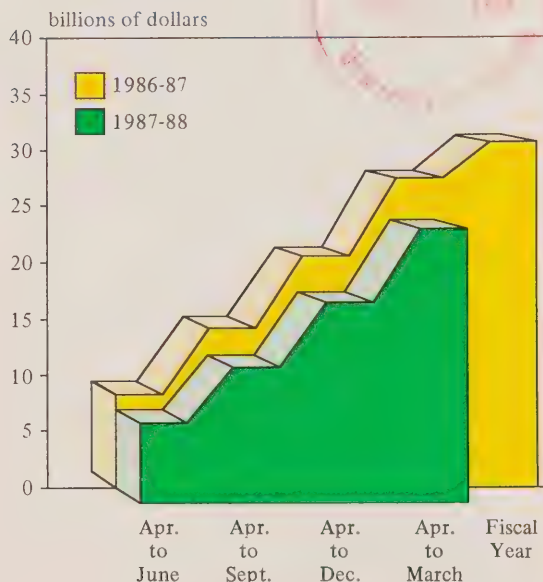
Highlights of Financial Results for April 1987 to March 1988

- Full year fiscal results for 1987-88 will not be available until late summer, when supplementary period adjustments are fully incorporated. However, the results to date suggest that the deficit outcome for 1987-88 could be about \$1 billion below the February 1988 Budget deficit estimate of \$29.3 billion and \$2.3 billion below the outcome for 1986-87.
- This continuing improvement in the federal deficit, for the third consecutive year, reflects the strength in the Canadian economy and the impact of fiscal and management initiatives introduced in past budgets.
- Over the fiscal year ended March 1988, the federal deficit, prior to supplementary period adjustments, was \$24.3 billion, \$3.1 billion lower than in the corresponding period in 1986-87. Financial requirements (excluding foreign exchange transactions) are estimated at \$18.0 billion for the year as a whole, down \$3.6 billion compared to the corresponding period in 1986-87.

Summary

Although this Monitor contains financial data for the period April 1987 to March 1988, full year results for fiscal year 1987-88 will not be available until late summer. Still to be determined are the "end-of-year" accounting adjustments recorded in the "supplementary period". These adjustments primarily affect budgetary expenditures since, consistent with the government's accounting principles, goods received or services rendered prior to the end of March but for which no payment has yet been made are reflected in the "supplementary period". Some adjustments are also made to budgetary revenues primarily to reflect cash in transit at year-end. As a result, the deficit outcome recorded to the end of March is usually adjusted upwards by a significant amount once the "supplementary period" adjustments are incorporated. Financial requirements, however, are largely unaffected by these supplementary period adjustments as the deficit impact is primarily offset by corresponding adjustments in non-budgetary transactions.

**Federal Deficit
1986-87 and 1987-88
Year to Date**



The Fiscal Monitor

Table 1
Summary Statement of Transactions

	April to March ⁽¹⁾		Per cent change
	1986-87	1987-88	
	(millions of dollars)		
A. Budgetary transactions			
1. Revenues	84,533	95,870	13.4
2. Expenditures	111,934	120,150	7.3
3. Deficit	-27,401	-24,280	-11.4
B. Non-budgetary transactions			
4. Loans, investments and advances	1,063	298	
5. Specified purpose accounts	6,085	7,064	
6. Other transactions	-1,307	-1,045	
7. Net source (+)/requirement(-)	5,841	6,317	
C. Financial requirements (excluding foreign exchange transactions)	-21,560	-17,963	
D. Foreign exchange transactions: net source (+)/requirement (-)	-6,320	-7,124	
E. Total financial requirements	-27,880	-25,087	
F. Unmatured debt transactions	27,828	22,232	
G. Cash balance at end of period	4,692	1,764	

Table 2
Budgetary Revenues and Expenditures

	April to March ⁽¹⁾		Per cent change
	1986-87	1987-88	
	(millions of dollars)		
A. Budgetary revenues			
1. Personal income tax	37,613	45,085 ⁽²⁾	19.9
2. Corporate income tax	9,631	10,425	8.2
3. Unemployment insurance contributions	9,567	10,406 ⁽²⁾	8.8
4. Sales and excise taxes/duties	20,635	22,102	7.1
5. Other revenues	7,087	7,852	10.8
6. Total budgetary revenues	84,533	95,870	13.4
B. Budgetary expenditures			
1. Statutory programs			
- Old age security benefits	13,445	14,349	6.7
- Unemployment insurance benefits	10,512	10,540	0.3
- Established programs financing ⁽³⁾	8,767	8,800	0.4
- Fiscal transfers	6,904	7,744	12.2
- Canada Assistance Plan	4,001	4,184	4.6
- Family allowances	2,534	2,565	1.2
- Other ⁽⁴⁾	5,180	6,140	18.5
- Total statutory programs	51,343	54,322	5.8
2. Non-statutory programs			
- Defence	8,931	9,832	10.1
- Official Development Assistance ⁽⁵⁾	1,999	2,274	13.8
- Special Canadian Grains programs	296	1,490	403.4
- Other	22,764	23,480	3.1
- Total non-statutory programs	33,990	37,076	9.1
3. Total program expenditures	85,333	91,398	7.1
4. Public debt charges	26,601	28,752	8.1
5. Total budgetary expenditures	111,934	120,150	7.3

1. Does not include supplementary period adjustments. Full fiscal year results will be available in late summer.

2. Includes impact of the acceleration of the remittance of source deductions from larger employers, which is estimated at \$1.2 billion or about 20 per cent of the year-over-year increase in personal income tax revenues. This initiative had an impact on large employers only and had no effect on an individual's personal income tax liability.

3. Cash portion only. Including tax portion, total entitlements are expected to grow at an annual rate of 5 per cent.

4. Includes payments under the Western Grain Stabilization Act and Western Grain Transportation Act.

5. Budgetary cash portion only.

Over the period April 1987 to March 1988, the budgetary deficit was \$24.3 billion, down \$3.1 billion from the level registered in the corresponding period of 1986-87. The final deficit outcome for 1987-88 is expected to be about \$1 billion lower than estimated in the February 1988 Budget.

The year-over-year improvement in the deficit to date continues to reflect, in large part, the strength in the Canadian economy and the impact of certain cash management initiatives introduced in previous budgets, which have resulted in increased revenues and have moderated the growth in certain expenditure components. However, offsetting some of the impact of these developments on the deficit has been the continuing adverse effect of low grain prices on farm incomes, which has resulted in increased payments under the various farm income stabilization programs and additional assistance under the Special Canadian Grains programs.

Total financial requirements, including foreign exchange requirements stood at \$25.1 billion, down \$2.8 billion from the level recorded in the same period of 1986-87.

Budgetary Revenues

The strength in economic activity throughout fiscal year 1987-88 along with the inclusion of the proceeds from the sale of Teleglobe Canada, the impact of accelerating the receipt of personal income tax deductions from large employers and the timing of personal income tax refund cheques, underlies the growth in budgetary revenues.

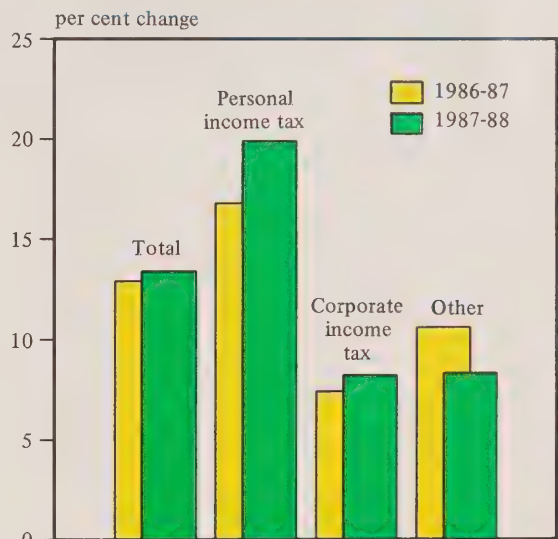
The most important source of budgetary revenues, the personal income tax, accounted for about two-thirds of the year-over-year increase in total revenues. The increase in personal income tax collections reflected, in large part, the strong advances in employment and the impact of the source acceleration initiative. In addition, personal income tax refunds to the end of March 1988 were lower than in the comparable period in the previous fiscal year.

Although corporate profits were estimated to have increased by about 25 per cent in 1987, the application of unused losses and deductions restrained the growth in collections to just over

8 per cent on a year-over-year basis. Sales and excise tax receipts were up 7.1 per cent over the same period in 1986-87. The impact of strong growth in consumer and business expenditures on sales and excise tax collections was dampened, to a certain extent, by a number of discretionary actions. These actions included the final round of tariff rate reductions as specified under the 1979 Multilateral Trade Negotiations Agreement and the reductions in the quarterly indexation factor on the sales tax rate for gasoline and diesel fuel, as well as the elimination of the Petroleum and Gas Revenue Tax, effective October 1986.

Budgetary Revenues: 1986-87 and 1987-88

April to March Year-Over-Year Growth



The strength in revenues in the month of March, due to the continuing strength in the economy and to the lower level of income tax refunds, should result in higher budgetary revenues for the fiscal year as a whole relative to the level estimated in the February 1988 Budget.

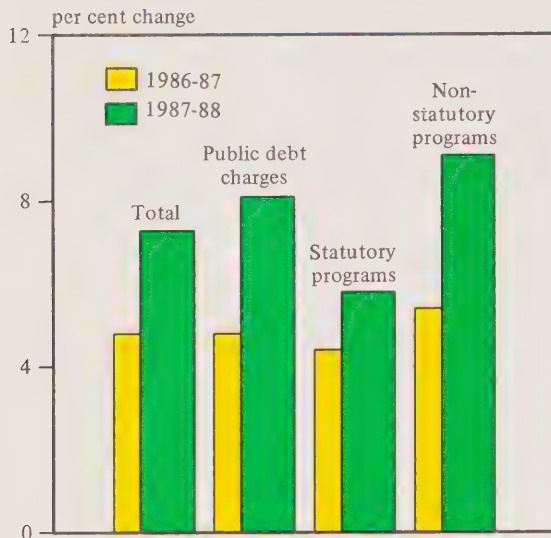
Budgetary Expenditures

On a year-over-year basis, budgetary expenditures were up \$8.2 billion, with most of the increase due to higher public debt charges and increased spending in certain key priority areas, such as old age security benefits, fiscal transfers to provinces, defence, foreign aid and assistance to grain farmers.

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Budgetary Expenditures: 1986-87 and 1987-88

April to March Year-Over-Year Growth



Statutory program spending, which accounts for about sixty per cent of program spending, is largely demand-driven or formula-funded, with changes reflecting developments in economic activity and the underlying population bases. The year-over-year increase to date was primarily concentrated in three areas: assistance to grain farmers, old age security benefits and transfers to provinces. Final payments to farmers under the Western Grain Stabilization Act with respect to the 1986 crop year and increased payments to railways under the Western Grain Transportation Act accounted for the large advance in the "other" statutory program spending category. The increase in old age security payments was due to increases in both the eligible population base and in the level of benefits, which are indexed quarterly to changes in the consumer price index. The impact on the equalization formula of robust increases in overall provincial revenues accounted for most of the increase in fiscal transfer payments. In contrast, the strength in the economy has restrained the growth in unemployment insurance benefits and by increasing the tax bases and thereby the value of tax points, has moderated the growth in

direct cash transfers under Established Programs Financing.

Payments to farmers under the 1986 and 1987 Special Canadian Grains programs, coupled with increased spending on defence and foreign assistance, accounted for three-fourths of the growth in non-statutory program spending. The increase in defence spending was in keeping with the government's commitment to increase defence spending by 2 per cent per year in real terms, while the advance in Official Development Assistance reflected Canada's commitment to maintain such contributions at 0.5 per cent of GNP. Spending on the "other" non-statutory programs increased by only 3.1 per cent on a year-over-year basis, about one full percentage point below the increase in inflation. The restraint in this area of spending reflects the phasing-out and reduction of various government expenditure programs and the actions that the government has undertaken to control direct operating costs.

Financial Requirements

Non-budgetary transactions in the April 1987 to March 1988 period resulted in a net source of funds amounting to \$6.3 billion, compared to \$5.8 billion in the comparable period of 1986-87.

With a deficit of \$24.3 billion and a net source of funds from non-budgetary transactions of \$6.3 billion, financial requirements, excluding foreign exchange transactions, amounted to \$18.0 billion in 1987-88, down \$3.6 billion from the requirement in 1986-87.

Foreign exchange transactions resulted in a net requirement of \$7.1 billion in 1987-88 resulting from intervention in the exchange markets to ensure orderly market conditions by dampening movements in the exchange rate. Total financial requirements, therefore, amounted to \$25.1 billion in 1987-88, down \$2.8 billion from that recorded in 1986-87. The 1987-88 requirement was financed by net borrowing of \$22.2 billion, primarily in the form of Canada Savings Bonds and other marketable bonds, and a \$2.9 billion drawdown in cash balances.

The information in this Monitor is based on preliminary financial statements for the year ended March 31, 1987. For further information contact: L.A. Langlois 996-7397 or P. DeVries 996-7380. Cet imprimé est également offert en français.



The Fiscal Monitor

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Highlights of the Preliminary Financial Results for 1987-88

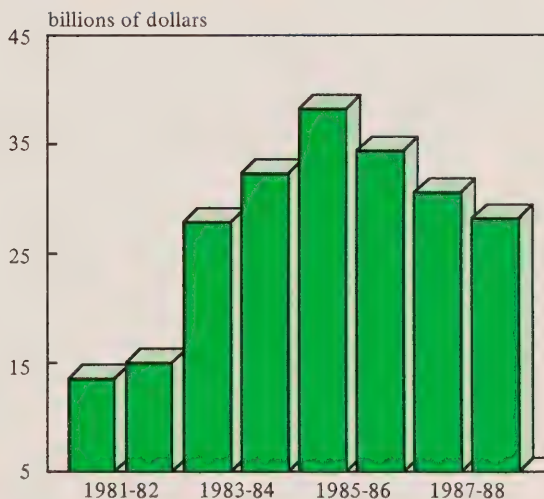
- The federal deficit declined by \$2.5 billion to \$28.1 billion in 1987-88, marking the third consecutive year in which the deficit has recorded a significant decline. Since the peak of \$38.3 billion in 1984-85, the deficit has declined by \$10.2 billion.
- As a percentage of gross domestic product (GDP), the deficit has declined by 3.5 percentage points since 1984-85.
- The preliminary deficit outcome for 1987-88 represents an improvement of \$1.2 billion from that projected at the time of the February 1988 budget.

Summary

Preliminary financial results indicate that the federal government's budgetary deficit for the fiscal year ending March 31, 1988 was \$28.1 billion, down \$2.5 billion from the level registered in 1986-87 and \$10.2 billion below the record level of \$38.3 billion in 1984-85. This is the first time in the postwar period that the deficit has declined for three consecutive years. As a percentage of GDP, the deficit has declined from the postwar peak of 8.6 per cent registered in 1984-85 to 5.1 per cent in 1987-88, a decline of 3.5 percentage points.

The deficit outcome for 1987-88 is \$1.2 billion lower than that projected at the time of the February 1988 budget. This improvement is related to higher budgetary revenues, resulting from the stronger-than-expected performance of the Canadian economy and the timing of personal income tax refunds. Total budgetary expenditures came in broadly on target.

Deficit in the 1980s



The Fiscal Monitor

Table 1

Preliminary Fiscal Outcome for 1987-88

	1984-85	1985-86	1986-87	1987-88
	(billions of dollars)			
A. Budgetary transactions				
1. Revenues	70.9	76.8	85.8	97.5
2. Expenditures	109.2	111.2	116.4	125.5
3. Deficit	-38.3	-34.4	-30.6	-28.1
B. Non-budgetary transactions				
4. Loans, investments and advances	0.7	.0	1.4	1.5
5. Specified purpose accounts	5.1	5.4	6.7	7.5
6. Other transactions	2.7	-1.3	1.0	0.9
7. Net source(+)/requirement(-)	8.5	4.1	9.0	9.9
C. Financial requirements (excluding foreign exchange transactions)	-29.8	-30.3	-21.6	-18.2
D. Foreign exchange transactions: net source(+)/requirement(-)	2.4	5.6	-6.4	-7.1
E. Total financial requirements	-27.4	-24.7	-28.0	-25.3
F. Unmatured debt transactions	26.8	23.5	27.8	22.2
G. Cash balance at end of period	5.9	4.7	4.6	1.5

Table 2

Preliminary Fiscal Outcome for 1987-88 - Budgetary Revenues and Expenditures

	1984-85	1985-86	1986-87	1987-88	Year-over-year change			Annual average change 1984-85 to 1987-88
	(millions of dollars)				1985-86	1986-87	1987-88	
					(per cent)			
A. Budgetary revenues								
1. Personal income tax	29,254	33,008	37,878	45,125 ⁽¹⁾	12.8	14.8	19.1	15.5
2. Corporate income tax	9,379	9,210	9,885	10,878	-1.8	7.3	10.0	5.1
3. Unemployment insurance contributions	7,553	8,719	9,558	10,426 ⁽¹⁾	15.4	9.6	9.1	11.3
4. Sales and excise taxes/duties	18,177	19,491	21,049	22,947	7.2	8.0	9.0	8.1
5. Other revenues	6,528	6,402	7,415	8,083	-1.9	15.8	9.0	7.6
6. Total budgetary revenues	70,891	76,830	85,785	97,459	8.4	11.7	13.6	11.2
B. Budgetary expenditures								
1. Statutory programs								
- Old age security benefits	11,418	12,525	13,445	14,349	9.7	7.3	6.7	7.9
- Unemployment insurance benefits	10,052	10,036	10,444	10,487	-0.2	4.1	0.4	1.4
- Established Programs Financing ⁽²⁾	8,595	8,677	8,839	8,800	1.0	1.9	-0.4	0.8
- Fiscal transfers	6,492	6,525	6,928	7,745	0.5	6.2	11.8	6.1
- Canada Assistance Plan	3,745	3,916	4,051	4,246	4.6	3.4	4.8	4.3
- Family allowances	2,418	2,501	2,534	2,565	3.4	1.3	1.2	2.0
- Other ⁽³⁾	5,300	5,715	5,959	6,914	7.8	4.3	16.0	9.3
- Total statutory programs	48,020	49,895	52,200	55,105	3.9	4.6	5.6	4.7
2. Non-statutory programs								
- Defence	8,762	9,094	9,993	10,772	3.8	9.9	7.8	7.1
- Official Development Assistance ⁽⁴⁾	2,089	1,814	2,257	2,489	-13.2	24.4	10.3	6.0
- Other	27,889	24,990	25,282	28,200	-10.4	1.2	11.5	0.4
- Total non-statutory programs	38,740	35,898	37,532	41,461	-7.3	4.6	10.5	2.3
3. Total program expenditures	86,760	85,793	89,732	96,566	-1.1	4.6	7.6	3.6
4. Public debt charges	22,455	25,441	26,658	28,976	13.3	4.8	8.7	8.9
5. Total budgetary expenditures	109,215	111,234	116,390	125,542	1.8	4.6	7.9	4.8

1. Includes impact of the acceleration of the remittance of source deductions from large employers, which is estimated at \$1.2 billion or about 20 per cent of the year-over-year increase in personal income tax revenues. This initiative had an impact on large employers only and had no impact on an individual's personal income tax liability.

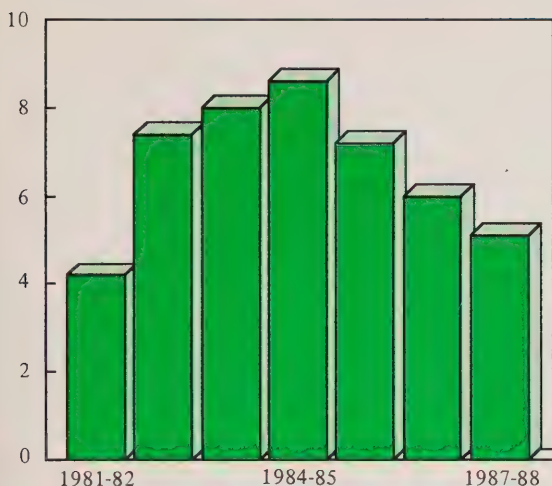
2. Cash portion only. Including tax portion, total entitlements are expected to grow at an annual rate of 5 per cent.

3. Includes payments under the Western Grain Stabilization Act and Western Grain Transportation Act.

4. Budgetary cash portion only.

Deficit in the 1980s

Percentage of Gross Domestic Product



Non-budgetary transactions provided the government with a net source of funds amounting to \$9.9 billion in 1987-88. Thus, financial requirements, excluding foreign exchange transactions, were \$18.2 billion, down \$3.4 billion from the level in 1986-87.

Budgetary Revenues

Over the period 1984-85 to 1987-88, budgetary revenues increased by \$26.6 billion. The continuing strength in economic activity throughout fiscal year 1987-88, together with the proceeds from the sale of Teleglobe Canada, the impact of the source acceleration initiative and the timing of personal income tax refund cheques, underlies the growth in budgetary revenues.

The largest component of budgetary revenues, personal income taxes, accounted for about 60 per cent of the year-over-year increase in total revenues. Strong advances in employment, together with the impact of the source acceleration initiative and a slower pace of income tax refunds, were the most important factors contributing to the growth in personal income tax revenues. Despite the

strong advance in corporate profits, the application of unused losses and deductions restrained the growth in corporate income tax collections.

Strong consumption expenditures were the major factor contributing to the growth in sales and excise tax revenues. This was offset somewhat by the effect of tariff rate reductions as specified under the 1979 Multilateral Trade Negotiations Agreement, together with the reductions in the quarterly indexation factor on the sales tax rate for gasoline and diesel fuel and the elimination of the Petroleum and Gas Revenue Tax. The increase in unemployment insurance contributions largely reflects the increase in employment as premium contribution rates for 1987 remained at their 1986 levels. The sale of Teleglobe Canada accounted for most of the increase in other revenues.

Budgetary Expenditures

Over the period 1984-85 to 1987-88, budgetary expenditures increased at an annual average rate of 4.8 per cent. This rate of change is substantially less than the growth in nominal GDP over this period and only marginally above the increase in prices, as measured by the consumer price index. As a percentage of GDP, budgetary expenditures have declined by 1.8 percentage points in 1987-88, from 24.6 per cent in 1984-85 to 22.8 per cent in 1987-88.

Budgetary expenditures advanced by 7.9 per cent in 1987-88. Most of the increase in the rate of growth in 1987-88 was attributable to higher average effective interest rates on public debt charges and to increased assistance to grain farmers.

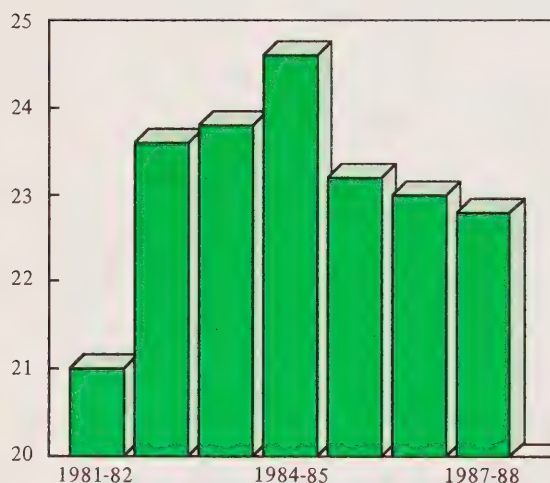
The advance of 5.6 per cent in statutory program spending, which for the most part is demand-driven or formula-funded, largely reflects developments in economic activity and in the underlying population bases. The year-over-year increase was primarily concentrated in three areas: assistance to grain farmers

The Fiscal Monitor

under the Western Grain Stabilization Act; old age security benefits, which are indexed to quarterly changes in the consumer price index; and fiscal transfer payments to provinces. The impact on the equalization formula of robust growth in overall provincial revenues accounted for most of the increase in fiscal transfer payments. In contrast, the strength in the economy restrained the growth in unemployment insurance benefits and, by increasing the tax bases and thereby the value of the tax points, has moderated the growth in direct cash transfers under Established Programs Financing.

Budgetary Expenditures

Percentage of Gross Domestic Product



Payments to grain farmers under the 1986 and 1987 Special Canadian Grains programs, coupled with increased spending on defence and foreign assistance, accounted for most of the increase in non-statutory program spending. The increase in defence spending

was in keeping with the government's commitment to increase defence spending by 2 per cent per year in real terms, while the advance in Official Development Assistance reflects Canada's commitment to maintain such contributions at 0.5 per cent of gross national product. Despite the increased assistance to grain farmers, the level of spending on other non-statutory programs is only marginally higher than that reported in 1984-85 implying that, in real terms, expenditures in this component of program spending have declined by more than 10 per cent over the last three years. The restraint in this area of government spending reflects the elimination and reduction of various expenditure programs and the actions that the government has taken to control direct operating costs.

Financial Requirements

With a deficit of \$28.1 billion and a net source of funds from non-budgetary transactions amounting to \$9.9 billion, total financial requirements, excluding foreign exchange transactions, amounted to \$18.2 billion, compared to \$21.6 billion in 1986-87. Foreign exchange transactions resulted in a net requirement of \$7.1 billion as the Bank of Canada intervened in the exchange markets to ensure orderly market conditions by dampening excessive movements in the exchange rate.

Total financial requirements, therefore, stood at \$25.3 billion. Net borrowings, primarily in the form of marketable bonds and Canada Savings Bonds, amounted to \$22.2 billion. Cash balances at the end of March 1988 were \$1.5 billion, down \$3.1 billion from the level reported at the end of 1986-87.

The information in this Monitor is based on preliminary financial statements for the year ended March 31, 1988. For further information contact: L.A. Langlois 996-7397 or P. DeVries 996-7380. Cet imprimé est également offert en français.



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The Fiscal Monitor

A Publication of the Department of Finance

September 1988

Highlights of Financial Results for April 1988 to June 1988

- In the first quarter of fiscal year 1988-89 (April to June), the federal deficit amounted to \$5.9 billion, \$1.2 billion lower than that recorded in the corresponding period of 1987-88.
- The improvement in the year-over-year deficit was attributable to the continued strength in economic performance and discretionary actions introduced in past budgets.
- Revenues were up 10.4 per cent, while budgetary expenditures advanced by 3.7 per cent.

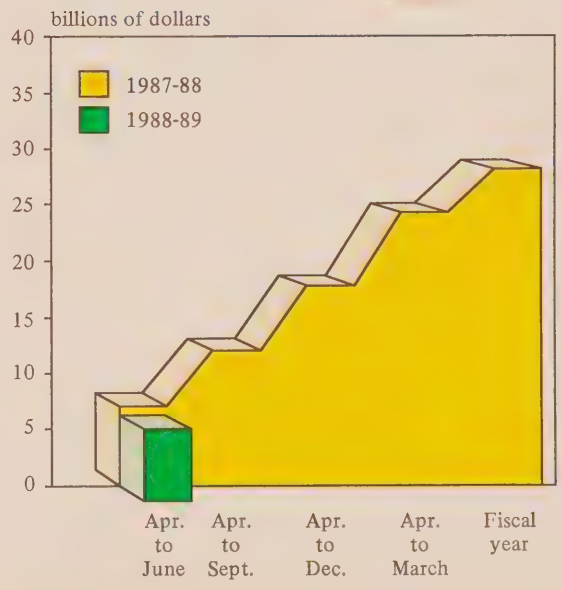
Summary

In the first quarter of 1988-89 (April to June), the budgetary deficit was \$5.9 billion, down \$1.2 billion from the level registered in the first quarter of 1987-88. The year-over-year improvement in the deficit continued to reflect the strength in the Canadian economy and the impact of certain discretionary actions introduced in previous budgets. These initiatives, which include among others the acceleration of sales and excise tax remittances and limitations on inflation adjustment, have resulted in increased revenues and have moderated the growth in certain expenditure components. The deficit, on a year-over-year basis, was also influenced by the timing of various receipts and payments. Offsetting some of the impact of these positive developments on the deficit was an increase in public debt charges.

Non-budgetary transactions resulted in a net source of funds amounting to \$0.6 billion, with the result that financial requirements, excluding foreign exchange transactions, were \$5.3 billion, down \$2.4 billion on a year-over-year basis. Foreign exchange transactions gave rise to a net requirement of \$3.1 billion, in sharp contrast to a net source of \$1.5 billion recorded in the first quarter of 1987-88. Thus, total financial

requirements, including foreign exchange requirements, stood at \$8.4 billion, up \$2.2 billion from the level recorded in the same period of 1987-88.

Federal Deficit
1987-88 and 1988-89
Year to Date



The Fiscal Monitor

Table 1

Summary Statement of Transactions

	April to June		Per cent change
	1987-88	1988-89	
(millions of dollars)			
A. Budgetary transactions			
1. Revenues	21,125	23,327	10.4
2. Expenditures	28,223	29,262	3.7
3. Deficit	-7,098	-5,935	-16.4
B. Non-budgetary transactions			
4. Loans, investments and advances	49	-465	
5. Specified purpose accounts	1,320	1,958	
6. Other transactions	-1,998	-849	
7. Net source (+) or requirement (-)	-629	644	
C. Financial requirements (excluding foreign exchange transactions)	-7,727	-5,291	
D. Foreign exchange transactions: net source (+) or requirement (-)	1,540	-3,094	
E. Total financial requirements	-6,187	-8,385	
F. Unmatured debt transactions	2,370	9,397	
G. Cash balance at end of period	802	2,546	

Table 2

Budgetary Revenues and Expenditures

	April to June		Per cent change
	1987-88	1988-89	
	(millions of dollars)		
A. Budgetary revenues			
1. Personal income tax	9,773	10,818	10.7
2. Corporate income tax	2,073	1,974	-4.8
3. Unemployment insurance contributions	2,440	2,659	9.0
4. Sales and excise taxes/duties	4,887	6,363	30.2 ⁽¹⁾
5. Other revenues	1,952	1,513	-22.5
6. Total budgetary revenues	21,125	23,327	10.4
B. Budgetary expenditures			
1. Statutory programs			
- Old age security benefits	3,484	3,696	6.1
- Unemployment insurance benefits	2,567	2,800	9.1
- Established Programs Financing	2,201	2,386	8.4
- Fiscal transfers	1,713	1,974	15.2
- Canada Assistance Plan	1,162	1,230	5.9
- Family allowances	637	670	5.2
- Other	1,986	1,870	-5.8
- Total statutory programs	13,750	14,626	6.4
2. Non-statutory programs			
- Defence	1,806	1,769	-2.0
- Official Development Assistance	334	345	3.3
- Other	5,259	4,715	-10.3
- Total non-statutory programs	7,399	6,829	-7.7
3. Total program expenditures	21,149	21,455	1.4
4. Public debt charges	7,074	7,807	10.4
5. Total budgetary expenditures	28,223	29,262	3.7

1. Includes impact of acceleration of sales and excise tax remittances, which is estimated at \$1.1 billion, accounting for about 75 per cent of the year-over-year increase in sales and excise tax revenues. This measure impacts on companies only and has no direct effect on consumers.

While the first quarter results for the 1988-89 budgetary deficit are encouraging, simple extrapolation of one quarter's performance can give a misleading impression of the likely outcome for the fiscal year as a whole. Quarterly figures exhibit wide fluctuations given the uneven timing of certain payments and receipts and the effective dates of policy measures.

Budgetary Revenues

A strong advance in sales and excise tax revenues, along with increases in personal income tax receipts and unemployment insurance contributions, underlie the growth in budgetary revenues during the first quarter of 1988-89. Most of the year-over-year increase in sales and excise tax revenues was due to the acceleration of remittances from large firms. This measure, which was largely introduced to assist with deficit management during the implementation and transition of the first phase of tax reform, has an impact on companies' cash flow only, and has no direct effect on consumers. The extension of the federal sales tax to telecommunication services, together with continued strength in consumer and business expenditures, also contributed to the growth in sales and excise tax revenues.

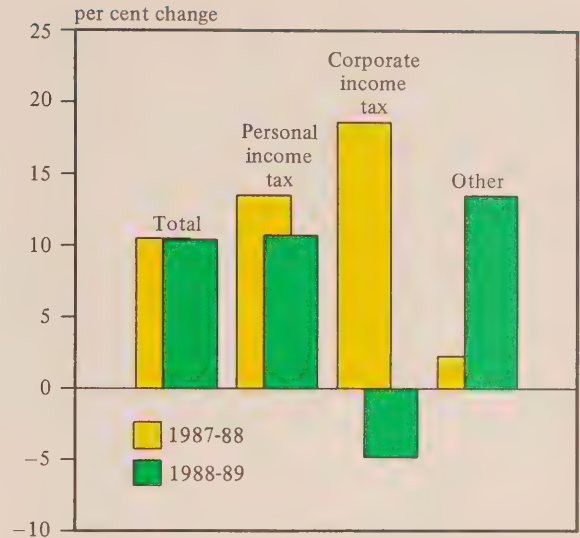
The increase in personal income tax collections and unemployment insurance contributions reflect, in large part, the strong advances in employment, which have accompanied the continued strength in economic activity in the first half of 1988. The year-over-year increase in personal income tax collections in the first quarter of 1988-89 would have been greater had it not been for higher personal income tax refunds, which were about \$1 billion more than in the same period in 1987-88.

The decline in corporate tax collections was related to the application of unused losses and deductions which resulted in large refunds in the first quarter of 1988-89. The inclusion of the proceeds from the sale of Teleglobe Canada in the first quarter of 1987-88 explains the year-over-year decline in the other revenue category.

Over the remaining quarters of the fiscal year, the year-over-year growth in budgetary revenues

Budgetary Revenues: 1987-88 and 1988-89

April to June Year-Over-Year Growth



is expected to slow, due largely to the measures affecting personal income taxes under stage one of tax reform. Although most of these measures are effective January 1, 1988, withholding tables were not changed until July 1, 1988. As the net impact of the measures was designed to reduce overall personal income taxes, the growth in collections is expected to be restrained during the rest of the fiscal year, reflecting both the adjustments to the withholding tables and larger refund payments in the final quarter of the fiscal year. In addition, the first quarter results were affected by the one-time acceleration of sales and excise tax remittances.

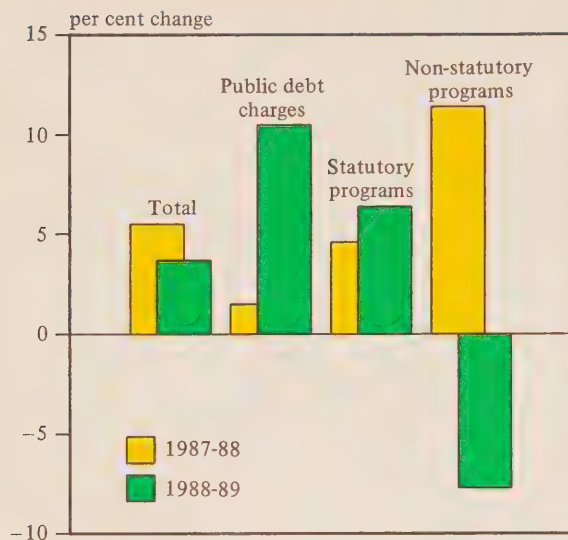
Budgetary Expenditures

On a year-over-year basis, budgetary expenditures were up 3.7 per cent, with most of the increase due to higher public debt charges. Public debt charges, the largest single component of budgetary expenditures, advanced 10.4 per cent in the first quarter of 1988-89, due to the impact of higher interest rates and increases in unmatured debt.

In contrast, program spending, that is, total budgetary expenditures excluding public debt charges, advanced by only 1.4 per cent on a

Budgetary Expenditures: 1987-88 and 1988-89

April to June Year-Over-Year Growth



year-over-year basis, with the timing of various payments accounting for most of the slowdown in the rate of growth.

All of the year-over-year increase in program spending was concentrated in statutory programs. Statutory program spending, which accounts for about 60 per cent of program spending, is largely demand-driven or formula-funded, with changes reflecting developments in economic activity and the underlying population bases. The increase in old age security payments was due to increases in both the eligible population base and in the level of benefits, which are indexed quarterly to changes in the consumer price index. Although the level of unemployment in the first quarter of 1988-89 was lower than that recorded in the comparable period in 1987-88, increases in average benefits resulted in higher unemployment insurance benefits. As the net impact of stage one of tax reform lowers the value of tax points, direct cash transfers under Established Programs

Financing are correspondingly higher. The impact on the equalization formula of robust increases in overall provincial revenues accounted for most of the increase in fiscal transfer payments.

Non-statutory program spending declined by 7.7 per cent in the first quarter of 1988-89. The decline was largely due to the timing of payments, especially under the Special Canadian Grains programs, and the actions undertaken to control direct operating costs. Final payments to grain farmers with respect to the 1986 Special Canadian Grains Program were made in the first quarter of 1987-88, while final payments with respect to the 1987 Special Canadian Grains Program were not made until the second quarter of 1988-89. The timing of capital expenditures accounted for the decline in defence spending.

Financial Requirements

Non-budgetary transactions in the April to June 1988 period resulted in a net source of funds amounting to \$0.6 billion, compared to a net use of \$0.6 billion in April-June 1987.

As a result, financial requirements, excluding foreign exchange transactions, amounted to \$5.3 billion in the first quarter of 1988-89, down \$2.4 billion from the requirements recorded in the first quarter of 1987-88.

However, foreign exchange transactions resulted in a net requirement of \$3.1 billion in the first quarter of 1988-89, compared to a net source of \$1.5 billion in the first quarter of 1987-88, largely reflecting operations in the foreign exchange markets to ensure orderly market conditions. Total financial requirements, therefore, amounted to \$8.4 billion in the first quarter of 1988-89, up \$2.2 billion from the level recorded in the same period in 1987-88. Unmatured debt transactions in April-June 1988 amounted to \$9.4 billion and cash balances at the end of June 1988 stood at \$2.5 billion.

The information in this Monitor is based on preliminary financial statements for the quarter ended June 30, 1988. For further information contact: L.A. Langlois 996-7397 or P. DeVries 996-7380. Cet imprimé est également offert en français.



The Fiscal Monitor

A Publication of the Department of Finance

February 1989

Highlights of Financial Results for April 1988 to December 1988

- In the first nine months of fiscal year 1988-89 (April to December), the federal deficit amounted to \$17.7 billion, unchanged from that recorded in the corresponding period of 1987-88.
- Revenues were up 7.6 per cent in the first nine months of 1988-89, while budgetary expenditures advanced by 6.1 per cent.
- Although the strength in the economy throughout 1988 had a positive impact on the deficit, its effect has been largely offset by the impact of higher interest rates on public debt charges.
- The deficit results for the first nine months of 1988-89 indicate that the deficit target of \$28.9 billion for the fiscal year as a whole remains on track.

Summary

In the first nine months of 1988-89 (April to December), the budgetary deficit was \$17.7 billion, unchanged from the level registered in the first nine months of 1987-88.

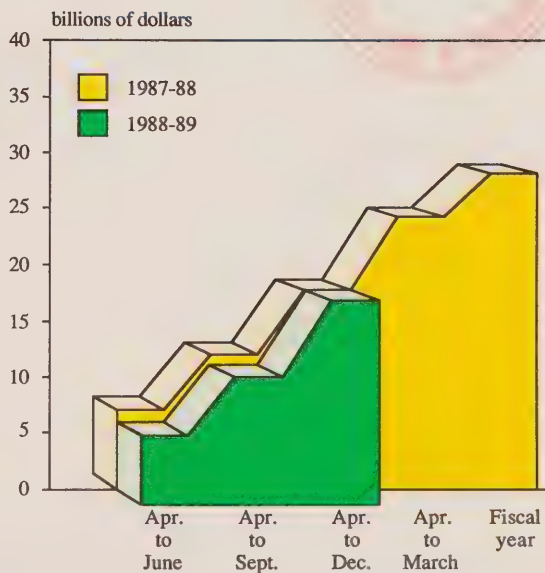
The strength in the economy through 1988 had a favourable impact on the underlying tax bases, thereby resulting in higher budgetary revenues than those expected at the time of the February 1988 budget. However, the impact of higher interest rates on the servicing of the public debt has largely offset the additional revenues from the stronger economy. On balance, the deficit results for the first nine months indicate that the target for the year as a whole of \$28.9 billion remains on track.

Non-budgetary transactions resulted in a net requirement of \$1.7 billion in the first nine months of 1988-89, as compared to a net source of \$1.3 billion in the same period last year. This turnaround largely resulted from the maturing of the 1981 series of Canada Savings Bonds and the resulting encashment of accrued interest associated with these bonds. Financial requirements, excluding foreign exchange transactions, therefore, amounted to \$19.4 billion, up \$3.0 billion on a year-over-year basis. Foreign

exchange transactions gave rise to a net requirement of \$2.6 billion, in sharp contrast to a net source of \$0.5 billion recorded in the first nine months of 1987-88. Thus, total financial

The Federal Deficit 1987-88 and 1988-89

Year to Date



The Fiscal Monitor

Table 1

Summary Statement of Transactions

	April to December		Per cent change
	1987-88	1988-89	
	(millions of dollars)		
A. Budgetary transactions			
1. Revenues	68,641	73,878	7.6
2. Expenditures	86,309	91,593	6.1
3. Deficit	-17,668	-17,715	0.3
B. Non-budgetary transactions			
4. Loans, investments and advances	174	-274	
5. Specified purpose accounts	5,577	4,703	
6. Other transactions	-4,492	-6,114	
7. Net source(+)/requirement(-)	1,259	1,685	
C. Financial requirements (excluding foreign exchange transactions)	-16,409	-19,400	
D. Foreign exchange transactions: net source(+)/requirement(-)	471	-2,564	
E. Total financial requirements	-15,938	-21,964	
F. Unmatured debt transactions	14,464	23,590	
G. Cash balance at end of period	3,145	3,158	

Table 2

Budgetary Revenues and Expenditures

	April to December		Per cent change
	1987-88	1988-89	
	(millions of dollars)		
A. Budgetary revenues			
1. Personal income tax	31,917	34,088	6.8
2. Corporate income tax	6,920	6,107	-11.7
3. Unemployment insurance contributions	7,623	8,718	14.4
4. Sales and excise taxes/duties	16,745	19,557	16.8 ⁽¹⁾
5. Other revenues	5,436	5,408	-0.5
6. Total budgetary revenues	68,641	73,878	7.6
B. Budgetary expenditures			
1. Statutory programs			
- Old age security benefits	10,680	11,306	5.9
- Unemployment insurance benefits	7,190	7,419	3.2
- Established Programs Financing	6,559	6,998	6.7
- Fiscal transfers	5,264	6,265	19.0
- Canada Assistance Plan	3,269	3,470	6.1
- Family allowances	1,915	1,947	1.7
- Other	4,981	4,244	-14.8
- Total statutory programs	39,858	41,649	4.5
2. Non-statutory programs			
- Defence	6,616	6,727	1.7
- Official Development Assistance	1,558	1,679	7.8
- Other	16,892	17,225	2.0
- Total non-statutory programs	25,066	25,631	2.3
3. Total program expenditures	64,924	67,280	3.6
4. Public debt charges	21,385	24,313	13.7
5. Total budgetary expenditures	86,309	91,593	6.1

(1) Includes impact of acceleration of sales and excise tax remittances, which is estimated at \$1.6 billion, accounting for over 50 per cent of the year-over-year increase in sales and excise tax revenues.

requirements, including foreign exchange requirements, stood at \$22.0 billion, up \$6.0 billion from the level recorded in the same period of 1987-88.

Budgetary Revenues

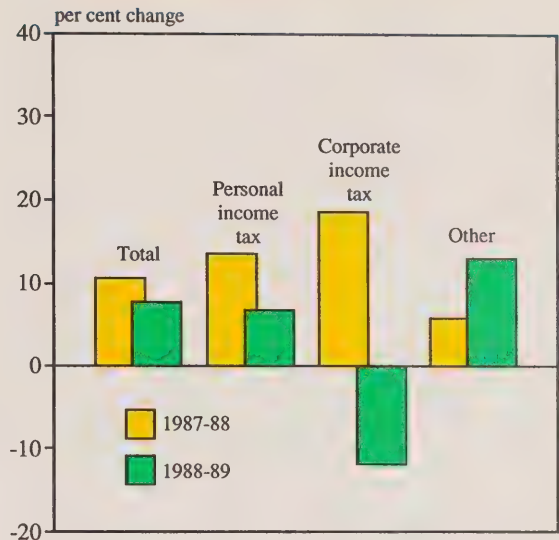
Budgetary revenues increased 7.6 per cent on a year-over-year basis. Advances in sales and excise tax revenues, personal income tax receipts and unemployment insurance contributions underlie this growth in budgetary revenues. Over one-half of the year-over-year increase in sales and excise tax revenues was due to the acceleration of remittances from large firms. This measure has an impact on companies' cash flow only, and has no direct effect on consumers. The extension of the federal sales tax to telecommunication services, together with continued strength in consumer and business expenditures, also contributed to the growth in sales and excise tax revenues.

The increases in personal income tax receipts and in unemployment insurance contributions reflected, in large part, the strong advances in employment and incomes, which accompanied the continued strength in economic activity in 1988. However, the year-over-year increase in personal income tax collections has slowed considerably from that recorded in the first quarter of 1988-89. This slowdown was due to the measures affecting personal income taxes under stage one of tax reform. Although most of these measures were effective January 1, 1988, withholding tables were not changed until July 1, 1988. As the net impact of the measures was designed to reduce overall personal income taxes, personal income tax collections slowed considerably in the second and third quarters of 1988-89 and should continue to do so over the remaining quarter of the current fiscal year. The payment of the \$100 child tax credit supplement in November 1988 also restrained the year-over-year growth in personal income tax collections.

The decline in corporate tax collections was related to the application of unused losses and deductions and to tax payment regulations. Corporations are permitted to remit their monthly tax instalments on either last year's actual tax liability or their estimate of their current year tax liability, with any adjustments for under or over remittance made in the settlement period, which for most large corporations is the month of March. Given the strength in corporate profits in 1988, coupled with the impact of tax reform, which was designed to

Budgetary Revenues: 1987-88 and 1988-89

April to December Year-Over-Year Growth



raise overall corporate income taxes, many corporations are making their monthly instalments based on last year's tax liability rather than the current year's. Corporate tax collections are expected to increase significantly in the final quarter of the fiscal year when settlement payments are due.

For the year as a whole, collections are still expected to increase about 10 per cent over last year's levels.

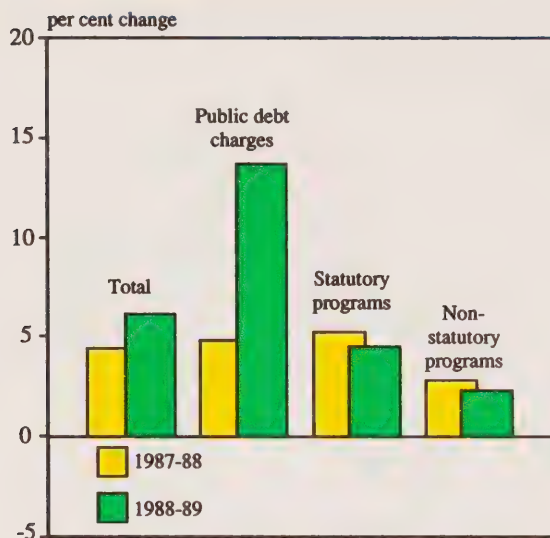
The developments over the first nine months of 1988-89 suggest that the budgetary revenues for the year as a whole could be about \$1.5 billion higher than expected in the February 1988 budget. This better than expected outcome results from the stronger economic growth, which has resulted in higher employment and incomes.

Budgetary Expenditures

On a year-over-year basis, budgetary expenditures were up 6.1 per cent. Over one-half of the increase in budgetary expenditures was due to public debt charges. Public debt charges, the largest single component of budgetary expenditures, advanced 13.7 per cent in the first nine months of 1988-89, due to interest rate developments in 1988 and to increases in unmatured debt.

Budgetary Expenditures: 1987-88 and 1988-89

April to December Year-Over-Year Growth



Statutory program spending, which accounts for about 60 per cent of program spending and which is largely demand-driven or formula-funded, advanced by 4.5 per cent. The increase in old age security payments was due to increases in both the eligible population base and in the level of benefits, which are indexed quarterly to changes in the consumer price index. Although the level of unemployment in 1988 was lower than that recorded in 1987, increases in the number of beneficiaries and in average benefits resulted in higher unemployment insurance benefits. As the net impact of stage one of tax reform lowers the value of tax points, direct cash transfers under Established Programs Financing are correspondingly higher. The impact on the equalization formula of robust increases in overall provincial revenues accounted for most of the increase in fiscal transfer payments. Timing considerations relating to the final payments to farmers under the Western Grain Stabilization Act with respect

to the 1987 crop year account for most of the decline in the "other" statutory program spending category. Non-statutory program spending advanced by 3.6 per cent in the first nine months of 1988-89. This increase was largely due to higher spending on foreign assistance.

The year-over-year increase in program spending is in line with that expected for the year as a whole, as set out in the February 1988 budget. However, the impact of the higher interest rates witnessed since the February 1988 budget will result in higher than expected public debt charges. It is expected that this increase in public debt charges will be offset by the higher budgetary revenues resulting from the more robust economy, thereby leaving the deficit outcome unchanged from that expected in the February 1988 budget.

Financial Requirements

Non-budgetary transactions in the April to December 1988 period resulted in a net requirement of funds amounting to \$1.7 billion, compared to a net source of funds of \$1.3 billion in April-December 1987.

As a result, financial requirements, excluding foreign exchange transactions, amounted to \$19.4 billion in the first nine months of 1988-89, up \$3.0 billion from the requirement recorded in the same period of 1987-88.

Foreign exchange transactions resulted in a net requirement of \$2.6 billion in the first nine months of 1988-89, compared to a net source of \$0.5 billion in the first nine months of 1987-88, largely reflecting operations in the foreign exchange markets to ensure orderly market conditions. Total financial requirements, therefore, amounted to \$22.0 billion, up \$6.0 billion from the level recorded in the first nine months of 1987-88. Unmatured debt transactions in April-December 1988 amounted to \$23.6 billion and cash balances at the end of December 1988 stood at \$3.2 billion.

The information in this Monitor is based on preliminary financial statements for the first nine months ended December 31, 1988. For further information contact: L.A. Langlois 996-7397 or P. DeVries 996-7380. Cet imprimé est également offert en français.



The Fiscal Monitor

A Publication of the Department of Finance

August 1989

Highlights of Financial Results for April-June 1989

- In the first quarter of fiscal year 1989-90 (April to June), the federal deficit, on a public accounts basis, amounted to \$6.6 billion, \$0.6 billion higher than that recorded in the corresponding period of 1988-89.
- The increase in the year-over-year deficit was attributable to the impact of interest rates on public debt charges and the effect of cash management initiatives on the 1988-89 results.
- Total financial requirements, including foreign exchange requirements, stood at \$7.9 billion, down \$0.5 billion from the level recorded in the same period of 1988-89.

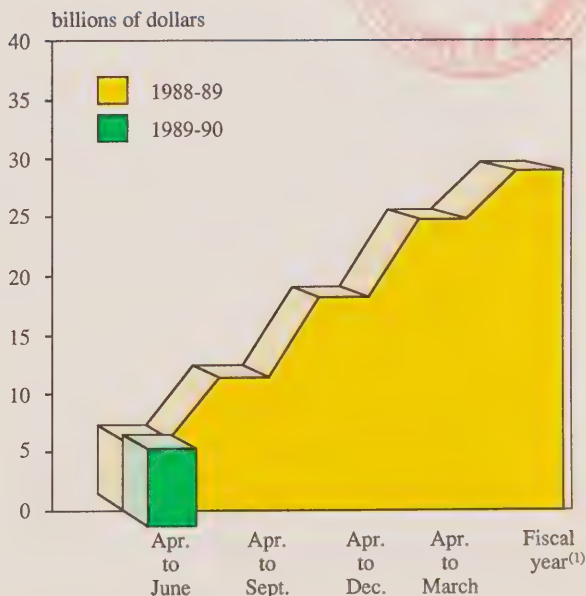
Summary

In the first quarter of 1989-90 (April to June), the budgetary deficit was \$6.6 billion, up \$0.6 billion from the level registered in the first quarter of 1988-89. The year-over-year increase in the deficit primarily resulted from higher public debt charges and the one-time impact on the 1988-89 results of the acceleration of sales and excise tax remittances. Program spending – that is, total budgetary expenditures excluding public debt charges – advanced by only 3.6 per cent on a year-over-year basis. Budgetary revenues increased by 7.5 per cent.

Non-budgetary transactions resulted in a net requirement of funds amounting to \$0.7 billion, in comparison to a net source of \$0.6 billion 1988-89. As a result, financial requirements, excluding foreign exchange transactions, were \$7.3 billion, up \$2.0 billion

The Federal Deficit 1988-89 and 1989-90

Year to Date



⁽¹⁾ April 1989 budget estimate

The Fiscal Monitor

Table 1

Summary Statement of Transactions

	April to June		Per cent change
	1988-89	1989-90	
	(millions of dollars)		
A. Budgetary transactions			
1. Revenues	23,327	25,069	7.5
2. Expenditures	29,262	31,641	8.1
3. Deficit	-5,935	-6,572	10.7
B. Non-budgetary transactions			
4. Loans, investments and advances	-465	-86	
5. Specified purpose accounts	1,958	1,973	
6. Other transactions	-849	-2,579	
7. Net sources(+)/requirement(-)	644	-692	
C. Financial requirements (excluding foreign exchange transactions)	-5,291	-7,264	
D. Foreign exchange transactions: net source(+)/requirement(-)	-3,094	-631	
E. Total financial requirements	-8,385	-7,895	
F. Unmatured debt transactions	9,397	8,248	
G. Cash balance at end of period	2,546	2,189	

Table 2

Budgetary Revenues and Expenditures

	April to June		Per cent change
	1988-89	1989-90	
	(millions of dollars)		
A. Budgetary revenues			
1. Personal income tax	10,818	11,982	10.8
2. Corporate income tax	1,974	2,505	26.9
3. Unemployment insurance contributions	2,659	2,473	-7.0
4. Sales and excise taxes/duties	6,364	6,406	0.7
5. Other revenues	1,512	1,703	12.6
6. Total budgetary revenues	23,327	25,069	7.5
B. Budgetary expenditures			
1. Major transfers to persons: of which	7,468	7,845	5.0
- Unemployment insurance			
program payments	2,800	2,989	6.8
- Old age security benefits	3,696	3,895	5.4
- Family allowances	670	658	-1.8
2. Major transfers to other levels of government: of which	5,590	5,881	5.2
- Established programs financing ⁽¹⁾	2,386	2,365	-0.9
- Fiscal transfers	1,974	2,279	15.5
- Canada Assistance Plan	1,230	1,237	0.6
3. Major subsidies and other transfers	2,229	1,741	-21.9
4. Major payments to Crown corporations	808	864	6.9
5. Defence	1,769	1,909	7.9
6. Official Development Assistance ⁽²⁾	425	345	-18.8
7. Operations of government	3,165	3,631	14.7
8. Total program expenditures	21,454	22,216	3.6
9. Public debt charges	7,808	9,425	20.7
10. Total budgetary expenditures	29,262	31,641	8.1

1. Cash portion only. Total EPF cash and tax transfers are up 5 per cent in 1989-90.

2. Budgetary cash portion only.

on a year-over-year basis. Foreign exchange transactions gave rise to a net requirement of \$0.6 billion, in sharp contrast to a net requirement of \$3.0 billion recorded in the first quarter of 1988-89. Thus, total financial requirements, including foreign exchange requirements, stood at \$7.9 billion, down \$0.5 billion from the level recorded in the same period of 1988-89.

Budgetary Revenues

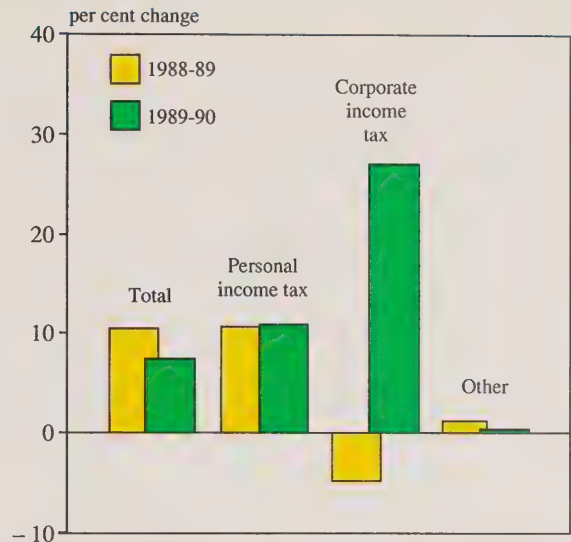
Strong advances in corporate and personal income tax receipts underlie the growth in budgetary revenues during the first quarter of 1989-90, primarily reflecting the growth in corporate profits and employment. In addition, corporate income tax collections were restrained through the first eleven months of 1988-89 due to tax payment regulations. Corporations are permitted to remit their monthly tax instalments on either their previous year's actual tax liability or an estimate of their current year's tax liability, with any adjustments for under or over remittance made in the settlement period, which for most large corporations is March. Given the strength in corporate profits in 1988, many corporations made their monthly instalments in 1988-89 based on their previous year's tax liability. This restrained the growth in 1988-89 monthly corporate income tax collections until the March settlement period.

The year-over-year growth in sales and excise tax revenues was considerably dampened by the impact on the 1988-89 results of the one-time acceleration of remittances from large firms. Largely offsetting the impact of this initiative was the continued strength in consumer and business expenditures and the impact of the tax measures introduced in the April 1989 budget.

The decline in unemployment insurance contributions was entirely due to the lowering of unemployment insurance premium rates for 1989. The impact of these lower rates has

Budgetary Revenues: 1988-89 and 1989-90

April to June Year-Over-Year Growth



been dampened by the effect of the continuing strength in employment and the increase in average earnings.

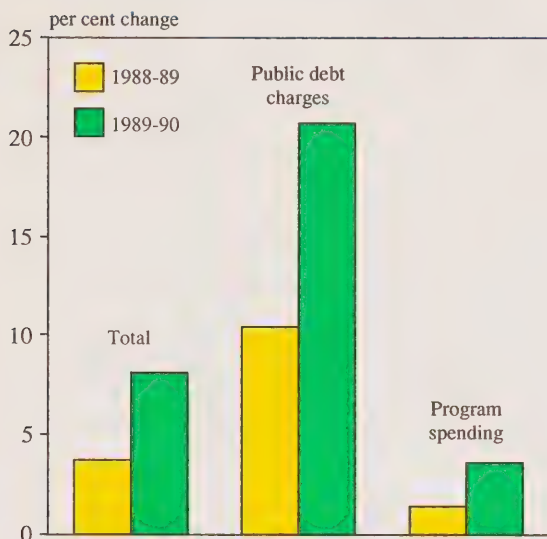
Budgetary Expenditures

On a year-over-year basis, budgetary expenditures were up 8.1 per cent, with most of the increase due to higher public debt charges. Public debt charges, the largest single component of budgetary expenditures, advanced 20.7 per cent in the first quarter of 1989-90, due to interest rate developments and the increase in unmatured debt.

In contrast, program spending – that is, total budgetary expenditures excluding public debt charges – advanced by only 3.6 per cent on a year-over-year basis. Higher unemployment insurance program payments and increases in old age security benefits underlie the growth in major transfers to persons. Increases in the number of beneficiaries and in average benefits resulted in higher unemployment insurance benefits. The increase in old age security payments was due to increases in

Budgetary Expenditures: 1988-89 and 1989-90

April to June Year-Over-Year Growth



both the eligible population base and in the level of benefits, which are indexed quarterly to changes in the consumer price index. Ad hoc payments to provinces account for most of the increase in major transfers to other levels of government. Although total entitlements under Established Program Financing are expected to be about 5 per cent higher in 1989-90 than in 1988-89, the impact of the strong economic growth on the value of tax transfers and the recoveries of overpayments made in previous years are restraining the increase in direct cash transfers under this program. Developments in the agricultural sector account for most of the variation in major subsidy and transfer payments. The variations in the other major components of program spending were primarily due to the timing of payments.

Financial Requirements

Total financial requirements amounted to \$7.9 billion in the first quarter of 1989-90, down \$0.5 billion from the level recorded in the same period in 1988-89. The year-over-year improvement in total financial requirements was entirely due to foreign exchange transactions.

Non-budgetary transactions in the April to June 1989 period resulted in a net requirement of funds amounting to \$0.7 billion, compared to a net source of funds of \$0.6 billion in April-June 1988. This turnaround largely reflected higher accounts payable.

As a result, with the deficit increasing by \$0.6 billion and an increase in net non-budgetary transactions requirements of \$1.3 billion, financial requirements, excluding foreign exchange transactions, amounted to \$7.3 billion in the first quarter of 1989-90, up nearly \$2.0 billion from the requirements recorded in the first quarter of 1988-89.

However, foreign exchange transactions resulted in a net requirement of only \$0.6 billion in the first quarter of 1989-90, compared to a requirement of \$3.1 billion in the first quarter of 1988-89. Total financial requirements in the first quarter of 1989-90 were financed through unmatured debt transactions of \$8.2 billion, down from the \$9.4 billion recorded in April-June 1988. Cash balances at the end of June 1989 stood at \$2.2 billion.

The information in this Monitor is based on preliminary financial statements for the first quarter ended June 30, 1989. For further information contact: L.A. Langlois 996-7397 or P. DeVries 996-7380. Cet imprimé est également offert en français.



The Fiscal Monitor

A Publication of the Department of Finance

September 1989

Highlights of the Preliminary Financial Results for 1988-89

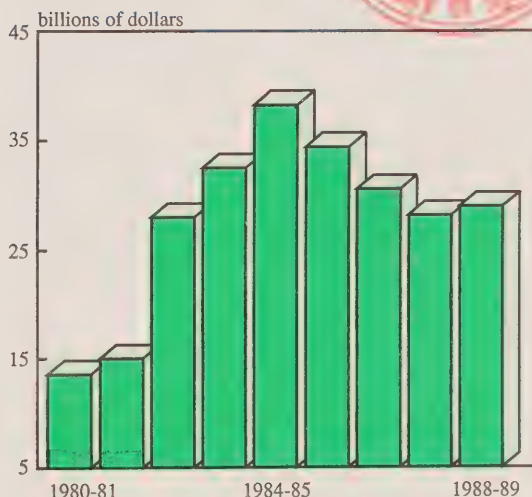
- The preliminary estimate of the deficit outcome for 1988-89, at \$28.7 billion, was \$0.2 billion lower than that estimated in the April 1989 budget.
- As a percentage of gross domestic product (GDP), the deficit has declined from 8.6 per cent to 4.8 per cent since 1984-85.
- Program spending in 1988-89 rose by 3.1 per cent, less than the rate of inflation.
- Since 1984-85, program spending has increased at an average annual rate of only 3.5 per cent, implying a decline in real terms. As a share of GDP, program spending has declined from 19.5 per cent in 1984-85 to 16.5 per cent, the lowest rate since 1979-80.
- Spending on government operations amounted to \$15.7 billion, or 15.8 per cent of program spending. In 1984-85, government operations required \$17.4 billion. On average, spending on government operations has declined by 2.6 per cent per year, or over 6 per cent in real terms.

Summary

Preliminary results indicate that the federal government's budgetary deficit for fiscal year 1988-89 was \$28.7 billion, \$9.6 billion below the peak of \$38.3 billion recorded in 1984-85. As a percentage of GDP, the deficit has declined from a postwar peak of 8.6 per cent registered in 1984-85 to 4.8 per cent in 1988-89, a decline of 3.8 percentage points.

The deficit for 1988-89 was up \$0.6 billion from that recorded in 1987-88. This increase was largely attributable to the June 1987 tax reform measures affecting personal income tax collections and the effect of higher interest rates in 1988 on public debt charges. The lowering of the statutory tax rates and the conversion of exemptions to credits, effective in the 1988 taxation year, contributed to a slowing in the rate of growth in personal income tax revenues. Strong economic growth during 1988 was accompanied by increasing inflationary pressures

Deficit in the 1980s



The Fiscal Monitor

Table 1

Preliminary Fiscal Outcome for 1988-89

	1984-85	1985-86	1986-87	1987-88	1988-89
	(billions of dollars)				
A. Budgetary transactions					
1. Revenues	70.9	76.8	85.8	97.5	104.0
2. Expenditures	109.2	111.2	116.4	125.5	132.7
3. Deficit	-38.3	-34.4	-30.6	-28.1	-28.7
B. Non-budgetary transactions					
4. Loans, investments and advances	0.7	.0	1.4	1.5	1.1
5. Specified purpose accounts	5.1	5.4	6.7	7.5	5.4
6. Other transactions	2.7	-1.3	1.0	0.9	0.3
7. Net source(+)/requirement(-)	8.5	4.1	9.0	9.9	6.8
C. Financial requirements (excluding foreign exchange transactions)	-29.8	-30.3	-21.6	-18.2	-22.0
D. Foreign exchange transactions: net source(+)/requirement(-)	2.4	5.6	-6.4	-7.1	-5.7
E. Total financial requirements	-27.4	-24.6	-28.0	-25.3	-27.7
F. Unmatured debt transactions	26.8	23.5	27.8	22.2	28.0
G. Cash balance at end of period	5.9	4.7	4.6	1.5	1.8

Table 2

Budgetary Revenues and Expenditures

	1984-85	1987-88	1988-89	Year-over-year change		Annual average change
				1987-88	1988-89	1984-85 to 1988-89
	(millions of dollars)			(per cent)		
A. Budgetary revenues						
1. Personal income tax	29,254	45,125	46,026	19.1	2.0	12.0
2. Corporate income tax	9,379	10,878	11,730	10.0	7.8	5.8
3. Unemployment insurance contributions	7,553	10,425	11,268	9.1	8.1	10.5
4. Sales and excise taxes/duties	18,177	22,941	25,778	9.0	12.3	9.1
5. Other revenues	6,528	8,083	9,185	9.0	13.6	8.9
6. Total budgetary revenues	70,891	97,452	103,980	13.6	6.7	10.0
B. Budgetary expenditures						
1. Major transfers to persons: of which	25,124	28,784	30,341	3.7	5.4	4.8
- Unemployment insurance program payments	10,052	10,487	10,972	0.4	4.6	2.2
- Old age security benefits	11,418	14,349	15,202	6.7	5.9	7.4
- Family allowances	2,418	2,564	2,606	1.2	1.6	1.9
2. Major transfers to other levels of government: of which	19,743	21,519	23,622	3.9	9.8	4.6
- Established Programs Financing ⁽¹⁾	8,595	8,800	8,905	-0.4	1.2	0.9
- Fiscal transfers	6,586	7,745	8,727	11.3	12.7	7.3
- Canada Assistance Plan	3,745	4,246	4,584	4.8	8.0	5.0
3. Major subsidies and other transfers	9,045	11,477	10,725	17.2	-6.6	4.4
4. Major payments to Crown corporations	4,582	5,784	5,364	23.8	-7.3	4.0
5. Defence	8,762	10,769	11,025	7.8	2.4	5.9
6. Official Development Assistance ⁽²⁾	2,089	2,599	2,759	15.2	6.2	7.2
7. Operations of government	17,415	15,575	15,680	7.0	0.7	-2.6
8. Total program expenditures	86,760	96,507	99,538	7.6	3.1	3.5
9. Public debt charges	22,455	29,028	33,176	8.9	14.3	10.2
10. Total budgetary expenditures	109,222	125,535	132,714	7.9	5.7	5.0

(1) Cash portion only. Total EPF cash and tax transfers are up 5.6 per cent in 1988-89 and an average 6.4 per cent a year in the four years ending 1988-89.

(2) Budgetary cash portion only.

which resulted in a substantial increase in interest rates. The compounding effect of these interest rates on debt servicing costs resulted in a significant increase in public debt charges in 1988-89.

The deficit outcome for 1988-89 is \$0.2 billion lower than that estimated in the April 1989 budget, with all of the improvement attributable to lower-than-expected program spending. Program spending was \$0.5 billion lower than estimated in the April 1989 budget. Since 1984-85, program spending has advanced at an average growth rate of only 3.5 per cent which, after adjusting for inflation, implies a decline of 0.6 per cent per year.

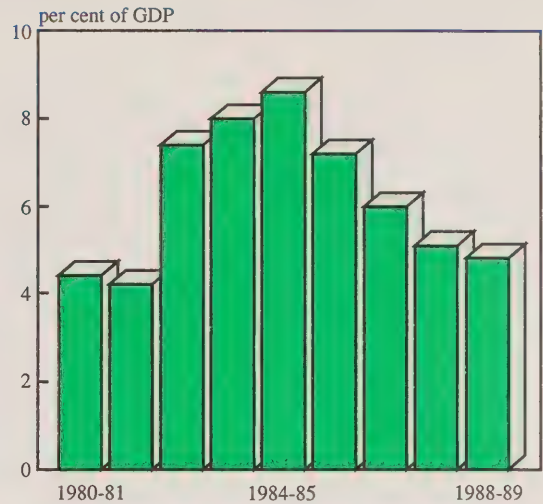
Non-budgetary transactions provided the federal government with a net source of funds amounting to \$6.8 billion, down \$3.1 billion from the level recorded in 1987-88. Net foreign exchange transaction requirements amounted to \$5.7 billion, down \$1.4 billion from 1987-88. As a result, total financial requirements were \$27.7 billion, compared to \$25.3 billion in 1987-88.

Budgetary Revenues

Budgetary revenues advanced by 6.7 per cent in 1988-89, less than half the rate of increase recorded in 1987-88. This slowdown in the rate of growth was largely attributable to developments affecting personal income tax collections. Despite strong growth in employment and incomes, personal income tax collections increased by only 2 per cent in 1988-89, after advancing by over 19 per cent in 1987-88. This slowdown largely reflected the lowering of personal income tax rates and the conversion of exemptions to credits associated with income tax reform as well as the impact of the one-time increase in 1987-88 collections resulting from the acceleration of source deductions.

In contrast, sales and excise tax revenues increased by 12.3 per cent in 1988-89. Over half of this increase was attributable to the acceleration of remittances from large firms. This measure, which was introduced to assist with deficit management during the implementation of income tax reform, affected companies' cash flow only and had no direct effect on consumers. The extension of the federal sales tax to telecommunications services, together with the strength in consumer and business spending, also contributed to the growth in sales and excise tax revenues.

Deficit in the 1980s



Despite the strong growth in corporate profits and the base-broadening measures introduced in past budgets, higher refunds, reflecting the increased use of loss carry-forwards, restrained the growth in corporate income tax collections. The advance in unemployment insurance contributions reflected the strong increases in employment and incomes witnessed during 1988 as the effective premium rates in 1988-89 declined. The increase in other revenues was due to higher withholding tax revenue and to increased interest income on foreign exchange reserves.

Between 1984-85 and 1988-89, budgetary revenues have increased by about \$33 billion. Over 80 per cent of this increase can be attributable to the growth in the economy and to cash management initiatives, with the remainder due to the increase in the average effective revenue yield.

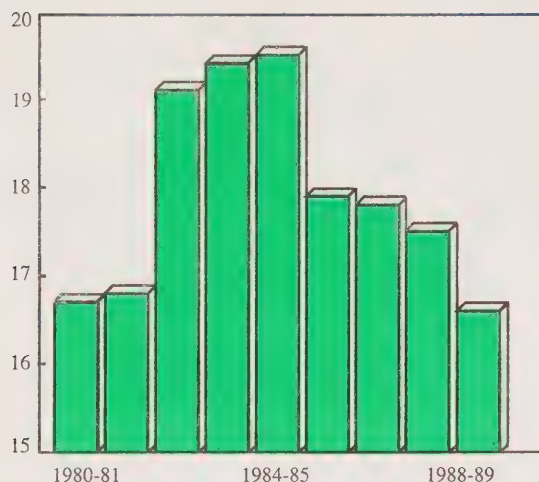
Budgetary Expenditures

Total budgetary expenditures advanced by 5.7 per cent in 1988-89, down from the increase of 7.9 per cent recorded in 1987-88. Over half of the increase in budgetary expenditures was due to higher public debt charges which, largely reflecting the increase in interest rates in 1988, rose by 14.3 per cent. Program spending advanced by 3.1 per cent in 1988-89, down from the 7.6 per cent increase recorded in 1987-88. After adjusting for inflation, this implies a decline in real program spending of 0.8 per cent.

The Fiscal Monitor

Program Spending

Percentage of Gross Domestic Product



After growing by almost 14 per cent per year on average in the four years ending 1984-85, spending on government programs was cut back to an average growth of only 3.5 per cent in the four years ending 1988-89. This growth is substantially less than the growth in nominal GDP (7.8 per cent) over this period and lower than the increase in prices (4.1 per cent), as measured by the consumer price index. Budget constraint measures introduced since November 1984 have been a major contributor to this slowdown in program spending over the 1984-85 to 1988-89 period. This is most evident in the operations of government component where the level of spending in 1988-89 is lower than that recorded in 1984-85.

Fiscal year 1988-89 marks the second consecutive year that the level of program spending has been less than the level of budgetary revenues.

The major contributor to the 3.1 per cent increase in program spending in 1988-89 was higher payments

to other levels of government. This largely reflected increased equalization payments resulting from the robust growth in overall provincial revenues. Although entitlements under Established Programs Financing increased by 5.6 per cent in 1988-89, the strong growth in the value of tax points, reflecting the strength in the economy, restrained the growth in cash transfers to only 1.2 per cent. Most of the increase in transfers to persons was due to higher old age security benefits and unemployment insurance payments. Developments in the agricultural sector accounted for most of the decline in major subsidies and other transfers, while the impact of restraint measures contributed to the reduction in payments to Crown corporations. The timing of capital payments affected the growth in defence spending, while Official Development Assistance contributions increased in line with the overall growth in the economy.

Financial Requirements

Total financial requirements amounted to \$27.7 billion in 1988-89, up \$2.4 billion from 1987-88. The major factor contributing to this higher requirement was the lower net source of funds in non-budgetary transactions. Non-budgetary transactions were \$3.1 billion lower in 1988-89, due largely to the encashment of accrued interest on the 1981 series of Canada Savings Bonds, which matured in 1988-89, as well as to retroactive payments to provinces under the Provincial Tax Collection Agreements Account for taxation year 1987. Partially offsetting the impact of this lower source of funds and the increase in the deficit on financial requirements was a reduction in foreign exchange transaction requirements, from \$7.1 billion in 1987-88 to \$5.7 billion in 1988-89.

Unmatured debt transactions in 1988-89, primarily in the form of Treasury bills, amounted to \$28.0 billion.

The information in this Monitor is based on preliminary financial results for 1988-89. For further information contact: L.A. Langlois at 996-7397 or P. DeVries at 996-7380. Cet imprimé est également offert en français.



The Fiscal Monitor

A Publication of the Department of Finance

November 1989

Highlights of Financial Results for April – September 1989

- In the first six months of fiscal year 1989-90 (April to September), the federal deficit, on a public accounts basis, amounted to \$13.6 billion, \$2.4 billion higher than that recorded in the corresponding period of 1988-89.
- The increase in the year-over-year deficit was more than accounted for by the impact of higher interest rates on public debt charges.
- Total financial requirements, including foreign exchange transactions, stood at \$12.8 billion, up \$1.4 billion from the level recorded in the same period of 1988-89.

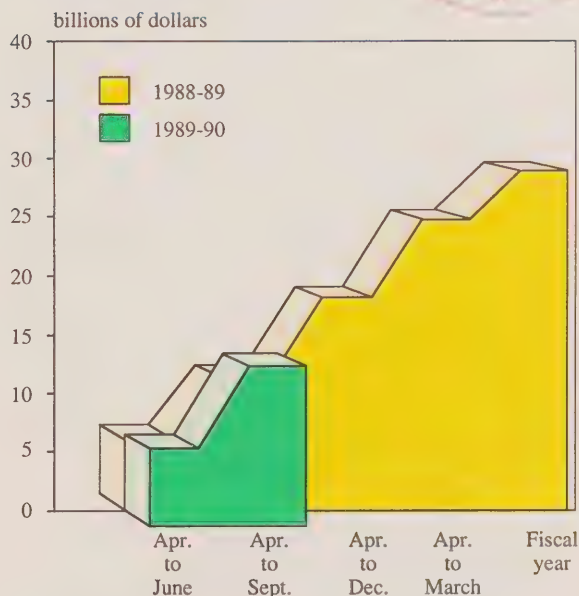
Summary

In the first six months of fiscal year 1989-90 (April to September), the federal deficit was estimated at \$13.6 billion, up \$2.4 billion from the level recorded in the same period of 1988-89. The year-over-year increase in the deficit was primarily attributable to the impact of the interest rate increases during the second half of 1988 on public debt charges. Public debt charges were up 22 per cent, or \$3.5 billion, on a year-over-year basis. In addition, the one-time impact of the acceleration of sales and excise tax remittances in the first quarter of 1988-89 overstates the degree of deterioration in the deficit between the first six months of 1988-89 and the first six months of 1989-90. Dampening the impact of these factors on the deficit was strong growth in revenues, particularly corporate income tax collections.

Non-budgetary transactions resulted in a net source of funds amounting to \$2.3 billion, down from the \$3.1 billion recorded in 1988-89. As a

The Federal Deficit 1988-89 and 1989-90

Year to Date



The Fiscal Monitor

Table 1

Summary Statement of Transactions

	April to September		Per cent change
	1988-89	1989-90	
	(millions of dollars)		
A. Budgetary transactions			
1. Revenues	48,328	51,812	7.2
2. Expenditures	59,550	65,389	9.8
3. Deficit	-11,222	-13,577	21.0
B. Non-budgetary transactions			
4. Loans, investments and advances	-374	586	
5. Specified purpose accounts	3,018	3,200	
6. Other transactions	480	-1,468	
7. Net source(+)/requirement(-)	3,124	2,318	
C. Financial requirements (excluding foreign exchange transactions)	-8,098	-11,259	
D. Foreign exchange transactions: net source(+)/requirement(-)	-3,347	-1,548	
E. Total financial requirements	-11,445	-12,807	
F. Unmatured debt transactions	12,266	11,996	
G. Cash balance at end of period	2,354	1,021	

Table 2

Budgetary Revenues and Expenditures

	April to September		Per cent change
	1988-89	1989-90	
	(millions of dollars)		
A. Budgetary revenues			
1. Personal income tax	22,680	24,770	9.2
2. Corporate income tax	4,165	4,824	15.8
3. Unemployment insurance contributions	5,444	5,027	-7.7
4. Sales and excise taxes/duties	12,831	13,431	4.7
5. Other revenues	3,208	3,760	17.2
6. Total budgetary revenues	48,328	51,812	7.2
B. Budgetary expenditures			
1. Major transfers to persons: of which	14,434	15,258	5.7
- Unemployment insurance program payments	5,060	5,436	7.4
- Old age security benefits	7,465	7,892	5.7
- Family allowances	1,297	1,317	1.5
2. Major transfers to other levels of government: of which	11,054	11,629	5.2
- Established Programs Financing ⁽¹⁾	4,714	4,653	-1.3
- Fiscal transfers	3,998	4,520	13.1
- Canada Assistance Plan	2,342	2,456	4.9
3. Major subsidies and other transfers	4,180	3,951	-5.5
4. Major payments to Crown corporations	1,789	1,781	-0.4
5. Defence	4,204	4,520	7.5
6. Official Development Assistance ⁽²⁾	1,107	909	-17.9
7. Operations of government	7,102	8,204	15.5
8. Total program expenditures	43,870	46,252	5.4
9. Public debt charges	15,680	19,137	22.0
10. Total budgetary expenditures	59,550	65,389	9.8

(1) Cash portion only. Total EPF cash and tax transfers are up 5 per cent in 1989-90.

(2) Budgetary cash portion only.

result, financial requirements, excluding foreign exchange transactions, were \$11.3 billion, which was up \$3.2 billion from 1988-89. Foreign exchange requirements gave rise to a net requirement of \$1.5 billion, down sharply from the requirement of \$3.3 billion in 1988-89. Thus, total financial requirements, including foreign exchange transactions, stood at \$12.8 billion, up \$1.4 billion from the level recorded in the same period of 1988-89.

Budgetary Revenues

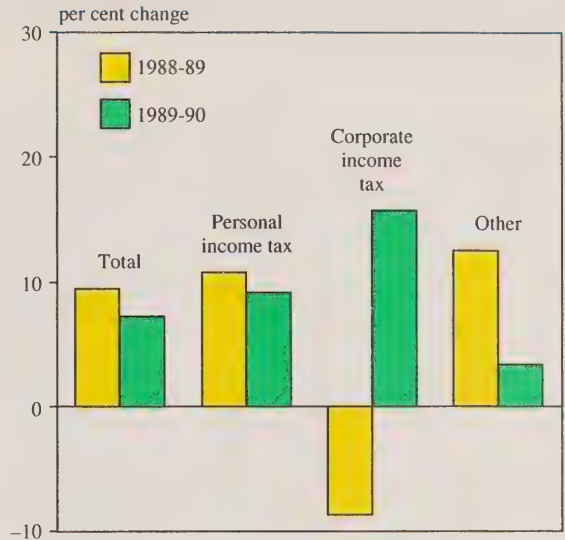
Strong advances in income tax receipts, particularly corporate income tax collections, underlie the growth in budgetary revenues during the first six months of 1989-90. Corporate income tax collections were up 15.8 per cent in the first six months of 1989-90. This strong pace may be significantly attributable to income tax payment regulations, as corporate profits in 1989 have weakened. Corporations are permitted to remit their monthly tax instalments on either their previous year's actual liability or an estimate of their current year's tax liability, with any adjustments for under- or over-remittances made in the settlement period which, for most large corporations, is March. Given the strength in corporate profits in 1988, many corporations made their monthly instalments in 1988-89 on their previous year's tax liability. This restrained the 1988-89 growth in corporate income tax collections until the March 1989 settlement. As a result, the current year-over-year growth in collections is likely somewhat overstated, and may not be reflective of trend developments in corporate tax collections.

The strength in personal income tax collections reflects the strength in personal income, resulting from the higher levels of employment and average earnings. The net proceeds from the sale of Air Canada and higher investment income earnings accounted for the growth in other revenues.

The year-over-year growth in sales and excise tax revenues was affected by the impact on the 1988-89 results of the one-time acceleration of

Budgetary Revenues: 1988-89 and 1989-90

April to September Year-Over-Year Growth



remittances from large firms. The decline in unemployment insurance contributions was entirely due to the lowering of the unemployment insurance premium rates for 1989.

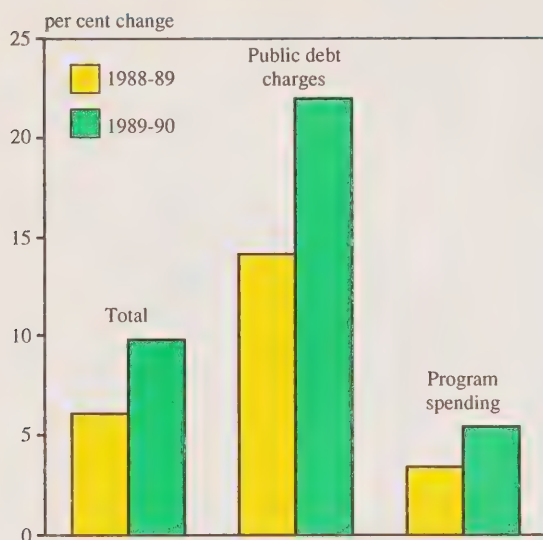
Budgetary Expenditures

On a year-over-year basis, budgetary expenditures were up 9.8 per cent, with nearly 60 per cent of the increase due to higher public debt charges. Public debt charges, the largest single component of budgetary expenditures, advanced by 22 per cent in the first six months of 1989-90, due to higher interest rates and increases in unmatured debt. Program spending was up 5.4 per cent on a year-over-year basis.

Growth in spending on major transfers to persons was concentrated in unemployment insurance programs and old age security benefits. Higher unemployment insurance program payments were due largely to advances in average benefits while the increase in old age security benefits reflected increases in both the eligible population base and average benefits.

Budgetary Expenditures: 1988-89 and 1989-90

April to September Year-Over-Year Growth



The impact of robust growth in overall provincial revenues has resulted in significantly higher fiscal transfer payments, which accounted for most of the increase in transfers to other levels of government. Although total entitlements under Established Programs Financing are expected to be about 5 per cent higher in 1989-90 than in 1988-89, the impact of the strong growth in personal income on the value of tax points has restrained the growth in direct cash transfers under this program.

The higher defence spending largely resulted from increased capital spending, as well as the timing of payments for operational purposes. The year-over-year decline in Official Development Assistance largely reflects the impact of the April 1989 budget measures, while developments in the agricultural sector

accounted for most of the lower spending on major subsidies and other transfers. Payments to Crown corporations were also lower, reflecting the impact of the April 1989 budget measures and the timing of payments. Although spending on operations of government was up 15.5 per cent, most of the increase was due to the timing of payments, both this year and last year. Expected developments over the remaining months of 1989-90 should ensure that the April 1989 Budget forecast of \$17 billion for spending on operations of government – 5.2 per cent above 1988-89 – is realized.

Financial Requirements

Total financial requirements amounted to \$12.8 billion in the first six months of 1989-90, up \$1.4 billion from the level recorded in the same period in 1988-89. Contributing to this higher requirement was the increase in the deficit (\$2.4 billion) and a lower net source of funds in non-budgetary transactions (\$0.8 billion), offset significantly by lower foreign exchange requirements (-\$1.8 billion).

The impact of higher accounts payable at the end of 1988-89 has resulted in larger disbursements throughout 1989-90, which account for the lower net source of funds in non-budgetary transactions. Exchange rate developments, and resulting operations in the exchange markets to ensure orderly market conditions, explain the lower requirement in foreign exchange transactions.

The total financial requirements in the first six months of 1989-90, of \$12.8 billion, were financed through unmatured debt transactions of \$12 billion and a drawdown in cash balances of \$0.8 billion.

The information in this Monitor is based on preliminary financial statements for the first half ended September 30, 1989. For further information contact: L.A. Langlois 996-7397 or P. DeVries 996-7380. Cet imprimé est également offert en français.



The Fiscal Monitor

A Publication of the Department of Finance

February 1990

Highlights of Financial Results for April – December 1989

- In the first nine months of fiscal year 1989-90 (April to December), the federal deficit, on a public accounts basis, amounted to \$18.8 billion, \$1.1 billion higher than that recorded in the corresponding period of 1988-89.*
- The increase in the year-over-year deficit was due to the impact of higher interest rates on public debt charges. In fact, the operating surplus (excess of budgetary revenues over program spending) actually increased by \$3.8 billion.*
- Total financial requirements stood at \$19.1 billion, down \$2.9 billion from the level recorded in the same period of 1988-89.*

Summary

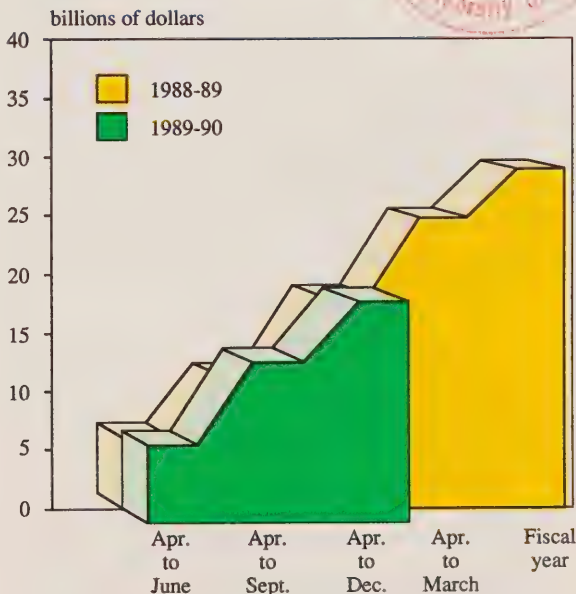
In the first nine months of fiscal year 1989-90 (April to December), the federal deficit was estimated at \$18.8 billion, up \$1.1 billion from the level recorded in the same period of 1988-89. In the April 1989 budget, the deficit was projected to increase by \$1.8 billion to \$30.5 billion in 1989-90.

The year-over-year increase in the deficit to date was primarily attributable to the impact of higher interest rates in late 1988 and throughout 1989 on public debt charges. Public debt charges were up 20 per cent, or \$4.9 billion, on a year-over-year basis. In contrast, budgetary revenues exceeded program spending by \$10.4 billion in the April to December 1989 period, up \$3.8 billion from the operating surplus recorded in the same period in 1988.

Non-budgetary transactions resulted in a net requirement of funds amounting to \$0.3 billion, down from the \$1.7 billion requirement recorded in 1988-89. As a result, financial requirements, excluding foreign exchange transactions, were

The Federal Deficit 1988-89 and 1989-90

Year to Date



The Fiscal Monitor

Table 1

Summary Statement of Transactions

	April to December		Per cent change
	1988-89	1989-90	
	(millions of dollars)		
A. Budgetary transactions			
1. Revenues	73,878	81,077	9.7
2. Expenditures	91,593	99,849	9.0
3. Deficit	-17,715	-18,772	6.0
B. Non-budgetary transactions			
4. Loans, investments and advances	-274	665	
5. Specified purpose accounts	4,703	4,891	
6. Other transactions	-6,115	-5,870	
7. Net source(+)/requirement(-)	-1,686	-314	
C. Financial requirements (excluding foreign exchange transactions)	-19,401	-19,086	
D. Foreign exchange transactions: net source(+)/requirement(-)	-2,564	30	
E. Total financial requirements	-21,965	-19,056	
F. Unmatured debt transactions	23,590	19,979	
G. Cash balance at end of period	3,158	2,757	

Table 2

Budgetary Revenues and Expenditures

	April to December		Per cent change
	1988-89	1989-90	
	(millions of dollars)		
A. Budgetary revenues			
1. Personal income tax	34,088	38,637	13.3
2. Corporate income tax	6,107	7,477	22.4
3. Unemployment insurance contributions	8,718	7,583	-13.0
4. Sales and excise taxes/duties	19,556	21,067	7.7
5. Other revenues	5,409	6,313	16.7
6. Total budgetary revenues	73,878	81,077	9.7
B. Budgetary expenditures			
1. Major transfers to persons: of which	21,586	22,912	6.1
- Unemployment insurance program payments	7,419	8,004	7.9
- Old age security benefits	11,306	11,992	6.1
- Family allowances	1,947	1,979	1.6
2. Major transfers to other levels of government: of which	16,841	17,560	4.3
- Established Programs Financing ⁽¹⁾	6,998	6,777	-3.2
- Fiscal transfers	6,265	7,081	13.0
- Canada Assistance Plan	3,470	3,631	4.6
3. Major subsidies and other transfers	6,275	6,138	-2.2
4. Major payments to Crown corporations	2,759	2,736	-0.8
5. Defence	6,727	7,235	7.6
6. Official Development Assistance ⁽²⁾	1,679	1,350	-19.6
7. Operations of government	11,412	12,741	11.6
8. Total program expenditures	67,279	70,672	5.0
9. Public debt charges	24,314	29,177	20.0
10. Total budgetary expenditures	91,593	99,849	9.0

(1) Cash portion only. Total EPF cash and tax transfers are up 6 per cent in 1989-90.

(2) Budgetary cash portion only.

\$19.1 billion, down \$0.3 billion from 1988-89. Foreign exchange requirements gave rise to a small source of funds, in sharp contrast to the requirement of \$2.6 billion in 1988-89. Thus, total financial requirements stood at \$19.1 billion, down \$2.9 billion from the level recorded in the same period of 1988-89.

Budgetary Revenues

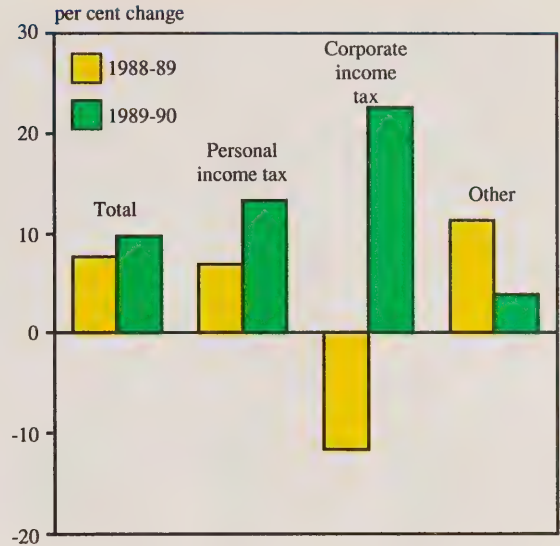
With the exception of unemployment insurance contributions, all major components of budgetary revenues recorded strong advances in the first nine months of 1989-90. Personal income tax collections advanced 13 per cent, reflecting the strength in personal income resulting from the higher levels of employment and increased average earnings.

Corporate income tax collections were up 22 per cent in the first nine months of 1989-90. This strong growth in corporate tax collections may be significantly attributable to income tax payment regulations, as corporate profits in 1989 have weakened. Corporations are permitted to remit their monthly tax instalments on either their previous year's actual liability or an estimate of their current year's tax liability, with any adjustments for under- or over-remittances made in the settlement period which, for most large corporations, is March. Given the strength in corporate profits in 1988, many corporations made their monthly instalments in 1988-89 based on their previous year's tax liability. This restrained the 1988-89 growth in corporate income tax collections until the March 1989 settlement period. As a result, the current year-over-year growth in corporate income tax collections is likely somewhat overstated, and may not be reflective of trend developments in corporate tax collections.

The year-over-year growth in sales and excise tax revenues was still significantly dampened by the impact on the 1988-89 results of the one-time acceleration of remittances from large firms. However, collections advanced significantly in the latest quarter, following the passage of the excise tax changes announced in the April 1989 budget. The net proceeds from the sale of Air Canada and higher investment income earnings accounted for the growth in other revenues.

Budgetary Revenues: 1988-89 and 1989-90

April to December Year-Over-Year Growth



The decline in unemployment insurance contributions was entirely due to the lowering of the unemployment insurance premium rates for 1989.

The developments to date suggest that the April 1989 budget estimate for budgetary revenues of \$112.4 billion will be met. Personal income and non-tax revenues are expected to be somewhat higher than estimated in the April 1989 budget. However, these incremental revenues are expected to be offset by lower corporate tax collections, the latter reflecting the weakening in corporate profits.

Budgetary Expenditures

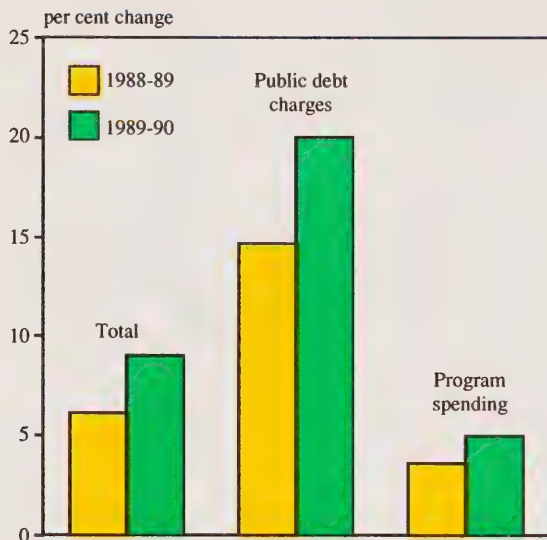
On a year-over-year basis, budgetary expenditures were up 9 per cent, with nearly 60 per cent of the increase due to higher public debt charges. Public debt charges, the largest single component of budgetary expenditures, advanced by 20 per cent in the first nine months of 1989-90, due to higher interest rates, especially in 1988, and increases in unmatured debt. Program spending was up 5 per cent on a year-over-year basis.

Growth in spending on major transfers to persons was concentrated in the unemployment insurance program and old age security benefits. Higher

The Fiscal Monitor

Budgetary Expenditures: 1988-89 and 1989-90

April to December Year-Over-Year Growth



unemployment insurance program payments were due largely to advances in average benefits while the increase in old age security benefits reflected the increases in both the eligible population base and average benefits.

The impact of robust growth in overall provincial revenues has resulted in significantly higher fiscal transfer payments, which accounted for most of the increase in transfers to other levels of government. Although total entitlements under Established Programs Financing are expected to be about 6 per cent higher in 1989-90 than in 1988-89, the impact of the strong growth in personal income on the value of tax points has restrained the growth in direct cash transfers under this program. Higher defence spending was primarily the result of the specific timing of payments for operational purposes. The year-over-year decline in Official Development Assistance largely reflected the impact of April 1989 budget

measures, while developments in the agricultural sector accounted for most of the lower spending on major subsidies and other transfers. Payments to Crown corporations were also lower, reflecting the impact of the April 1989 budget measures and the timing of payments. Although spending on operations of government was up 11.6 per cent, most of the increase was due to the timing of payments, both this year and last year, with the result that the year-over-year growth should moderate significantly over the remaining months of 1989-90, in line with the April budget projections.

For the fiscal year as a whole, budgetary expenditures are expected to be unchanged from the \$142.9 billion forecast in the April 1989 budget. Although short-term interest rates are higher at year-end than forecast in the April budget, average short-term rates over the fiscal year should only be marginally higher and long-term rates are now lower than anticipated. Taken together, these developments suggest that public debt charges will still be in line with the April budget forecast for 1989-90 of \$39.4 billion. Program spending is also expected to be unchanged for the April budget forecast.

Financial Requirements

Total financial requirements amounted to \$19.1 billion in the first nine months of 1989-90, down \$2.9 billion from the level recorded in the same period in 1988-89. Contributing to this lower requirement were a lower net requirement of funds in non-budgetary transactions (\$1.4 billion) and reduced foreign exchange transactions (\$2.6 billion), partially offset by an increase in the deficit (\$1.1 billion).

The total financial requirements in the first nine months of 1989-90 of \$19.1 billion were financed through unmatured debt transactions of \$20.0 billion. Cash balances as of December 31, 1989 stood at \$2.8 billion.

The information in this Monitor is based on preliminary financial statements for the first nine months ended December 31, 1989. For further information contact: L.A. Langlois 996-7397 or P. DeVries 996-7380. Cet imprimé est également offert en français.



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The Fiscal Monitor

A Publication of the Department of Finance

May 1990

Highlights of Financial Results for April 1989 to March 1990

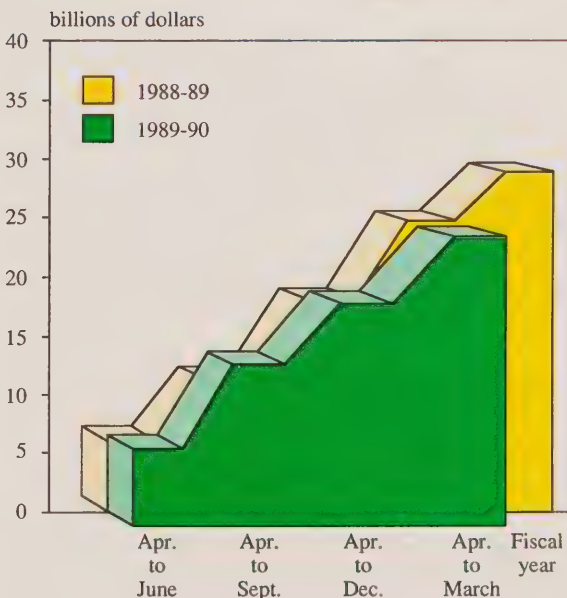
- Financial requirements, excluding foreign exchange transactions, are estimated at \$20.3 billion for the fiscal year as a whole, down \$1.8 billion from the amount required in 1988-89, and \$1.7 billion lower than the February 1990 budget estimate.
- The deficit, prior to standard supplementary period accounting adjustments, was \$24.0 billion, \$0.3 billion lower than that recorded in the comparable period in 1988-89.
- Full-year fiscal results for 1989-90 will not be available until the supplementary period adjustments are fully incorporated into the financial data. However, results to date suggest that the deficit outcome for 1989-90 could amount to about \$1 billion lower than the February 1990 budget estimate.

Summary

Although this Fiscal Monitor contains financial data for the period April 1989 to March 1990, full-year results for fiscal year 1989-90 will not be available until the summer. Still to be determined are the standard accounting adjustments recorded in the "supplementary period". Consistent with the government's accounting principles, these "supplementary period" adjustments primarily reflect the recording of the costs of goods and services provided to the government prior to the end of March. Some adjustments are also made to budgetary revenues, primarily to reflect cash in transit at year end.

Over the period April 1989 to March 1990, the budgetary deficit was \$24.0 billion, \$0.3 billion lower than that recorded in the corresponding period of 1988-89. Once the "supplementary period" adjustments are taken into account, the results to date suggest the deficit for the year as a whole could be about

**The Federal Deficit
1988-89 and 1989-90**
Year to Date



The Fiscal Monitor

Defence spending rose 4.5 per cent over the April 1989 to March 1990 period. Although this component had been increasing by 2 per cent a year in real terms, the April 1989 budget lowered defence spending. The April 1989 budget expenditure reduction measures also explain the year-over-year decline in Official Development Assistance spending. Although spending on other government operations was up 10.5 per cent, most of this increase was attributable to the timing and recording of payments, both this fiscal year and in 1988-89. The year-over-year growth in this component should moderate in the supplementary period and the results for the year as a whole should be in line with the February 1990 budget estimate.

The Expenditure Control Plan introduced in the February 1990 budget will ensure that program spending will be restrained throughout 1990-91. However, the higher-than-expected interest rates will put upward pressure on public debt charges in 1990-91. The stronger growth in budgetary revenues currently being experienced will help offset upward pressures on public debt charges.

Financial Requirements

Non-budgetary transactions in the April 1989 to March 1990 period resulted in a net source of funds amounting to \$3.6 billion, up \$1.5 billion from that recorded in the corresponding period of 1988-89. Most of this increase was due to the impact of the encashment of accrued interest on the 1981 series of Canada Savings Bonds, which matured on November 1, 1988 and dampened the 1988-89 results. With a deficit of \$24.0 billion and a net source of funds from non-budgetary transaction of \$3.6 billion, financial requirements, excluding foreign exchange transactions, amounted to \$20.3 billion in 1989-90, down \$1.8 billion from the requirements in 1988-89, and \$1.7 billion lower than the February 1990 budget estimate for 1989-90.

Foreign exchange transactions resulted in a net requirement of \$0.7 billion, in sharp contrast to the requirement of \$5.4 billion in 1988-89. Total financial requirements, therefore, amounted to \$21.0 billion in 1989-90, down \$6.4 billion from the 1988-89 requirement. The 1989-90 requirement was financed through unmatured debt transactions of \$20.7 billion and a drawdown of \$0.3 billion in cash balances.

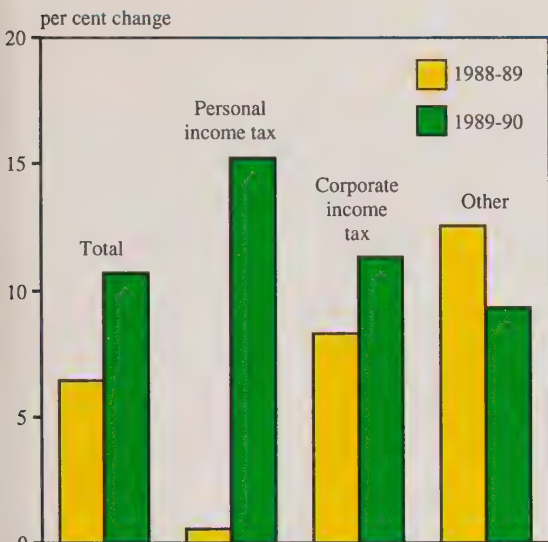
The information in this Monitor is based on preliminary financial statements for the period ended March 31, 1990. For further information contact: L.A. Langlois 996-7397 or P. DeVries 996-7380. Cet imprimé est également offert en français.



The Fiscal Monitor

Budgetary Revenues: 1988-89 and 1989-90

April to March Year-Over-Year Growth



Corporate income tax collections advanced by 11.3 per cent on a year-over-year basis, despite the fact that corporate profits declined in 1989. The growth in corporate income tax collections was primarily attributable to the impact of corporate income tax reform introduced in 1988, the introduction of the Large Corporations Tax, and the acceleration of corporate income tax remittance measure announced in the April 1989 budget. The collections to date are consistent with the February 1990 budget estimate.

Indirect taxes, including the federal manufacturers' sales tax, customs import duties, and excise taxes, increased by 9.4 per cent on a year-over-year basis. Most of the increase is attributable to the April 1989 budget measures which increased the various sales and gasoline tax rates and the tobacco excise tax levies. The year-over-year growth,

however, was dampened by the effect on the 1988-89 results of the one-time acceleration of remittances from large firms, along with the phase-out of tariffs under the Canada-United States Free Trade Agreement. The results to date, however, suggest that the final results for the year as whole will be below the February 1990 budget estimate, reflecting a further erosion in the underlying tax base.

The decline in unemployment insurance contributions is entirely due to the lowering of the unemployment insurance premium rates in 1989.

The increase in the other revenue component, which includes the non-resident tax, other tax revenues and non-tax revenues, primarily reflects the net proceeds from the sale of Air Canada shares and the introduction of the dollar coin. As a result, collections from this component are expected to exceed the February 1990 budget estimate.

Relative to the February 1990 budget, personal income tax collections and non-tax revenues are expected to be higher, offset somewhat by lower indirect tax revenues. These developments suggest that budgetary revenues for 1989-90 could exceed the February 1990 budget estimate by about \$1 billion.

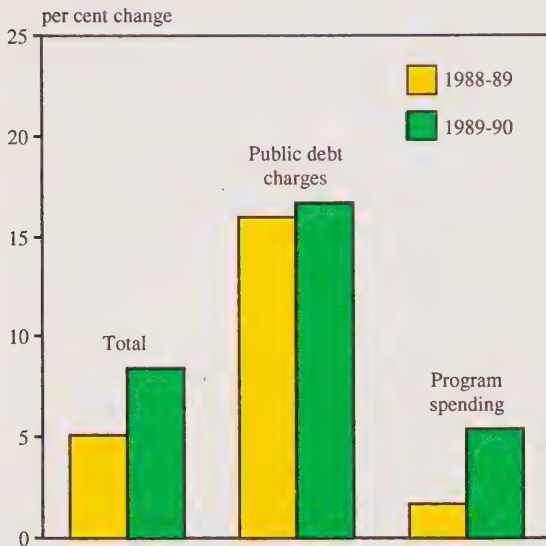
Budgetary Expenditures

On a year-over-year basis, budgetary expenditures are up 8.4 per cent, with public debt charges and program spending contributing about equally to the increase. Public debt charges, the largest single component of budgetary expenditures, advanced by 16.7 per cent in the April 1989 to March 1990 period as compared to the same period in 1988-89. The increase in public debt

charges reflects the compounding effect of the increases in interest rates and the increase in the stock of debt. Once the standard accounting adjustments are incorporated, it is expected that the fiscal year outcomes for both program spending and public debt charges will be consistent with the February 1990 budget estimates.

Budgetary Expenditures: 1988-89 and 1989-90

April to March Year-Over-Year Growth



Program spending advanced by 5.4 per cent in the April 1989 to March 1990 period. Growth in spending on major transfers to persons was concentrated in higher unemployment insurance program and elderly benefit payments. The increase in unemployment insurance program benefits was largely due to increases in average benefits as the number of beneficiaries was relatively unchanged. The increase in elderly benefits reflected increases in both average benefits, which are indexed to quarterly changes in the consumer price index, and the eligible population base.

The impact of robust overall growth in provincial revenues, in 1989 and in prior years as well, has resulted in significantly higher fiscal transfer payments to the provinces and accounts for most of the increase in transfers to other levels of government. In contrast, direct cash transfers to the provinces under Established Programs Financing were lower in the April 1989 to March 1990 period than in the corresponding period in 1988-89, despite the fact that total entitlements under this program are about 6 per cent higher in 1989-90 than in 1988-89. The lower cash transfer reflects the strength in the tax bases throughout 1989-90 with the result that a larger portion of the overall transfer was made through the tax points transfer.

The decline in major subsidy and other transfer payments primarily reflects developments in the agricultural sector, as no net payments were made under the Western Grain Stabilization Act in 1989-90, while payments under the Western Grain Transportation Act were lower due to a decline in shipments. In addition, energy subsidies were also lower, primarily reflecting the termination of the Canadian Exploration and Development Incentives Program. The impact of these lower transfers was largely offset by increased transfers to natives and to the regional development agencies.

The increase in transfers to major Crown corporations primarily relates to higher payments to the various cultural agencies and to the Canada Mortgage and Housing Corporation. In contrast, subsidy payments to VIA Rail and Atomic Energy of Canada were lower, reflecting the impact of past budget measures.

The Fiscal Monitor

A Publication of the Department of Finance

August 1990

Highlights of the Preliminary Financial Results for 1989-90

- The federal deficit outcome for 1989-90, on a public accounts basis, is estimated at \$28.9 billion.
- As a percentage of gross domestic product (GDP), the deficit has declined from 8.6 per cent to 4.4 per cent since 1984-85.
- The preliminary deficit outcome for 1989-90 of \$28.9 billion is \$1.6 billion lower than estimated in the April 1989 and February 1990 budgets.
- The operating balance – the difference between budgetary revenues and program spending – recorded a surplus of \$9.9 billion in 1989-90, a marked improvement over the \$4.5 billion surplus achieved in 1988-89.
- On the basis of comparable public accounting concepts, the fiscal position in Canada in 1989-90 was better than in the United States for the first time since 1981-82; financial requirements were 3.1 per cent of GDP in Canada compared to a U.S. unified budget deficit of 4.0 per cent of gross national product (GNP).

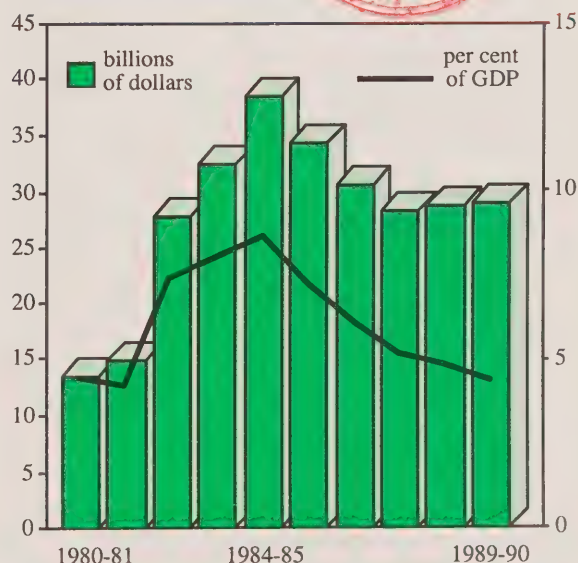


Summary

Preliminary results indicate that the federal government's budgetary deficit for the fiscal year 1989-90 was \$28.9 billion, \$9.4 billion below the peak of \$38.3 billion recorded in 1984-85, and \$1.6 billion lower than estimated in the April 1989 budget and restated in the February 1990 budget. Final results for 1989-90 will be published in the Public Accounts of Canada, scheduled for release in the fall. As a percentage of GDP, the deficit has declined from a postwar peak of 8.6 per cent registered in 1984-85 to 4.4 per cent in 1989-90, a decline of 4.2 percentage points.

The deficit for 1989-90 was up \$0.2 billion from that recorded in 1988-89. This increase

Deficit in the 1980s



The Fiscal Monitor

Table 1

Summary Statement of Transactions: Preliminary Outcome for 1989-90

	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90
	(billions of dollars)					
A. Budgetary transactions						
1. Revenues	70.9	76.8	85.8	97.5	104.0	113.7
2. Program spending	86.8	85.8	89.7	96.5	99.5	103.8
3. Operating balance	-15.9	-9.0	-3.9	0.9	4.5	9.9
4. Public debt charges	22.5	25.4	26.7	29.0	33.2	38.8
5. Deficit	-38.3	-34.4	-30.6	-28.1	-28.7	-28.9
B. Non-budgetary transactions						
6. Loans, investments and advances	0.7	0.0	1.4	1.5	1.1	0.9
7. Specified purpose accounts	5.1	5.4	6.7	7.5	5.4	6.4
8. Other transactions	2.7	-1.3	1.0	0.9	0.3	1.1
9. Net source(+)/requirement(-)	8.5	4.1	9.1	9.9	6.7	8.5
C. Financial requirements (excluding foreign exchange transactions)	-29.8	-30.3	-21.5	-18.2	-22.0	-20.5
D. Foreign exchange transactions: net source (+)/requirement (-)	2.4	5.6	-6.4	-7.1	-5.7	-0.7
E. Total financial requirements	-27.4	-24.6	-28.0	-25.3	-27.7	-21.2
F. Unmatured debt transactions	26.8	23.5	27.8	22.2	28.0	20.8
G. Cash balance at end of period	5.9	4.7	4.6	1.5	1.8	1.5

Table 2

Budgetary Revenues and Expenditures

	1984-85	1988-89	1989-90	Year-over-year change		Annual average 1984-85 to 1989-90
	(millions of dollars)			1988-89	1989-90	(per cent)
A. Budgetary revenues						
1. Personal income tax	29,254	46,026	51,895	2.0	12.8	12.1
2. Corporate income tax	9,379	11,730	13,021	7.8	11.0	6.8
3. Unemployment insurance contributions	7,553	11,268	10,738	8.1	-4.7	7.3
4. Sales and excise taxes/duties	18,177	25,771	28,155	12.3	9.3	9.1
5. Other revenues	6,535	9,203	9,906	13.9	7.6	8.7
6. Total budgetary revenues	70,898	103,998	113,715	6.7	9.3	9.9
B. Budgetary expenditures						
1. Major transfers to persons: of which	25,118	30,299	32,176	5.3	6.2	5.1
Unemployment insurance program payments	10,052	10,972	11,694	4.6	6.6	3.1
Old age security benefits	11,418	15,202	16,154	5.9	6.3	7.2
Family allowances	2,418	2,606	2,654	1.6	1.8	1.9
2. Major transfers to other levels of government: of which	19,740	23,637	25,090	9.8	6.1	4.9
Established Programs Financing (1)	8,595	8,905	8,829	1.2	-0.9	0.5
Fiscal transfers	5,401	7,290	8,079	14.2	10.8	8.4
Canada Assistance Plan	3,745	4,556	5,006	7.3	9.9	6.0
3. Major subsidies and other transfers	9,091	10,448	9,615	-5.0	-8.0	1.1
4. Major payments to Crown corporations	4,582	5,364	4,709	-8.1	-12.2	0.5
5. Defence	8,762	11,025	11,454	2.4	3.9	5.5
6. Official Development Assistance (2)	2,089	2,759	2,575	6.2	-6.7	4.3
7. Other government operations	17,385	16,011	18,203	-0.0	13.7	0.9
8. Total program expenditures	86,767	99,543	103,821	3.1	4.3	3.7
9. Public debt charges	22,455	33,169	38,836	14.3	17.1	11.6
10. Total budgetary expenditures	109,222	132,712	142,657	5.7	7.5	5.5

(1) Cash portion only. Total EPF cash and tax transfers are up 6.1 per cent in 1989-90 and an average 6.3 per cent a year in the five years ending 1989-90.

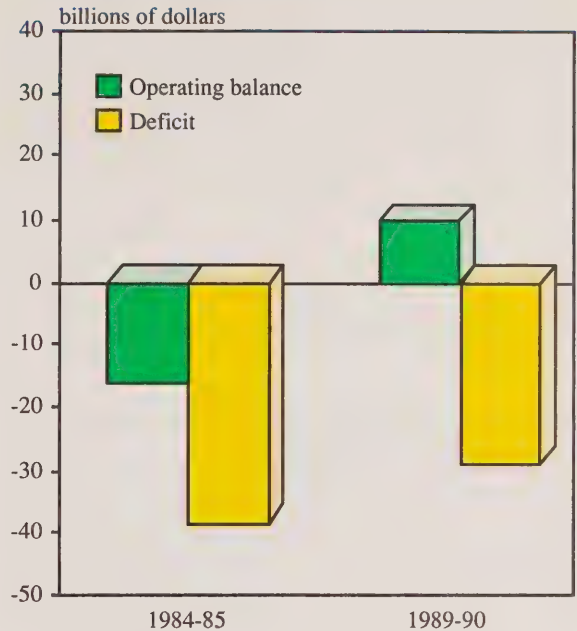
(2) Budgetary cash portion only.

was primarily due to the transitional impact of the June 1987 tax reform, affecting personal income tax collections, and the effect of higher interest rates on public debt charges. Although personal income tax reform became effective January 1, 1988, withholding tables were not adjusted until July 1, 1988, thereby resulting in substantially higher tax refunds in fiscal year 1989-90. As well, in response to inflationary pressures, interest rates rose significantly during the latter half of 1988-89 and remained high throughout 1989-90. Given the stock of debt, the compounding impact of these interest rate developments resulted in significantly higher public debt charges in 1989-90 than in 1988-89. Largely offsetting the impact of these factors on the deficit were the effects of the continued strength in the economy on the underlining tax bases and the discretionary policy actions introduced in past budgets, which increased budgetary revenues and restrained the growth in program spending.

The deficit outcome for 1989-90 is \$1.6 billion lower than that first estimated in the April 1989 budget. Most of this improvement resulted from stronger-than-expected growth in budgetary revenues, resulting from the higher-than-expected growth in the tax bases during the latter half of fiscal year 1989-90. Personal income was up 9 per cent in 1989 over the previous year. In addition, public debt charges were \$0.6 billion lower than estimated in the April 1989 budget, while program spending was \$0.3 billion higher. It is expected that the higher levels of income tax collections will carry into 1990-91. Depending upon interest rate developments and economic conditions during the latter half of 1990, this should help to offset the upward pressure of higher-than-expected interest rates on public debt charges on the 1990-91 deficit.

The operating balance, the difference between budgetary revenues and program spending, recorded a surplus of \$9.9 billion in 1989-90, more than twice the surplus registered in

The Budgetary Deficit and the Operating Balance



1988-89. Since 1984-85, there has been a turnaround in the operating balance of \$25.8 billion, from a deficit of \$15.9 billion in 1984-85 to a surplus of \$9.9 billion. Of this improvement, only \$9.4 billion has been available to reduce the deficit with the remaining \$16.5 billion required to pay the increased interest charges on the net debt.

With the deficit at \$28.9 billion in 1989-90, the accumulated deficit, or net debt, stood at \$349.7 billion as of March 31, 1990, an increase of 9.0 per cent above the March 31, 1989 level of \$320.7 billion, and marks only the second time in the past fifteen years that the growth in net debt has been less than 10 per cent. Since 1984-85, net debt has increased by \$150.6 billion, of which over 80 per cent is attributable to interest payments on the net debt that had accumulated by the end of the 1984-85 period.

Non-budgetary transactions provided the government with a net source of funds

amounting to \$8.5 billion, up \$1.7 billion from the level recorded in 1988-89. Foreign exchange transactions resulted in a net requirement of \$0.7 billion in 1989-90, in sharp contrast to the requirement of \$5.7 billion in 1988-89. As a result, total financial requirements amounted to \$21.2 billion, down \$6.5 billion from 1988-89 requirements.

Budgetary Revenues

Budgetary revenues in 1989-90 increased by 9.3 per cent from the level reported in 1988-89. The increase in 1989-90 largely reflects the continued strength in the underlying tax bases, which has accompanied the growth in the economy, and fiscal measures introduced in past budgets, especially those introduced in the April 1989 budget. Between 1984-85 and 1989-90, budgetary revenues have increased by \$42.8 billion, or from 15.9 per cent of GDP to 17.5 per cent of GDP. Of the increase in budgetary revenues, over three-quarters can be attributable to the growth in the economy, which has resulted in strong increases in employment and incomes.

Personal income tax revenues, the largest component of budgetary revenues, increased 12.8 per cent in 1989-90, up significantly from the advance of 2 per cent recorded in 1988-89. Most of the increase resulted from strong growth in personal income which grew by 9 per cent in 1989. The low increase in personal income tax revenues in 1988-89 reflected the transitional impacts of tax reform. Personal income tax reform, which became effective January 1, 1988, significantly lowered the statutory tax rates, broadened the tax base by reducing tax preferences, and relieved an additional 850,000 lower-income tax Canadians from paying federal personal income tax through the conversion of tax exemptions into tax credits. As a result, despite a strong growth in employment and personal income in 1988,

the overall increase in personal income tax revenues was significantly dampened in 1988-89 by the impact of tax reform.

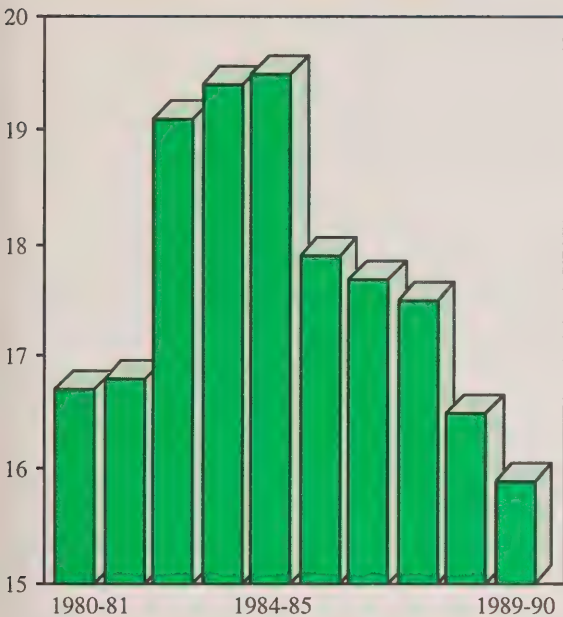
Also contributing to the overall rise in budgetary revenues in 1989-90 were increases in corporate income tax revenue, excise taxes and duties and in non-tax revenue. Corporate income tax revenue rose 11 per cent, despite a decline in corporate profits of 13.4 per cent in 1989. The increase was largely attributable to the impact of tax reform introduced in 1988, the introduction of the Large Corporation Tax, and the one-time impact of the acceleration of tax instalment payments. Sales and excise taxes and duties advanced by 9.3 per cent, with most of the increase attributable to the increases in the tax rates introduced in the April 1989 budget. Other revenue increased by 7.6 per cent, largely reflecting the one-time impact of the net proceeds from the sale of the Air Canada shares and the seigniorage from the sale of the new dollar coins. Unemployment insurance premium contributions declined by 4.7 per cent, due solely to the reduction in the premium rates in calendar year 1989.

Budgetary Expenditures

Total budgetary expenditures increased by 7.5 per cent in 1989-90, up from the advance of 5.7 per cent recorded in 1988-89. Of the nearly \$10 billion increase in budgetary expenditures between 1988-89 and 1989-90, almost 60 per cent was attributable to higher public debt charges. Public debt charges, which accounted for 27 per cent of total budgetary expenditures in 1989-90, advanced by 17.1 per cent. The continued strength in economic activity in 1989 and the accompanying inflationary pressures resulted in monetary policy remaining restrictive throughout fiscal year 1989-90. As a result, interest rates were higher in 1989-90 than in 1988-89. Given the stock of federal debt, the impact of these higher interest rates on debt

Program Spending

Percentage of Gross Domestic Product



servicing costs resulted in the large increase in public debt charges in 1989-90.

Program spending in 1989-90 – that is – total budgetary expenditure excluding public debt charges – advanced by 4.3 per cent. This is well below the 8.0 per cent advance in the gross domestic product and the 5.0 per cent increase in the consumer price index in 1989. The moderate increase in program expenditures reflects to a large extent the impact of various restraint measures that the government has introduced since November 1984. These measures include the phasing-out and reduction of various expenditure programs, limits on indexation, reductions in the number of person-years, and other actions to control operating costs. Over the five years ending 1989-90, the annual average rate of growth in program spending was 3.7 per cent, compared to an average inflation rate of 4.3 per cent. The restraint in program spending has resulted in program spending, as a percentage of GDP,

falling from 19.5 per cent in 1984-85 to 15.9 per cent in 1989-90, the lowest level since 1970-71.

Nearly half of the growth in program spending between 1988-89 and 1989-90 was attributable to a 6.2 per cent increase in major transfers to persons. This component, which includes elderly benefit payments, unemployment insurance benefits and family allowances, among others, is largely demand-driven or formula-funded. The increase in 1989-90 largely reflects the impact of inflation on the indexation formula and to a lesser extent the increases in underlying population bases.

The federal government provides substantial financial support to other levels of government to assist them in carrying out programs for which the provinces have the primary responsibility, such as health care, post-secondary education, and social assistance. Major transfers to other levels of government consist of equalization, Established Programs Financing, and the Canada Assistance Plan, among others. Major transfers to other levels of government increased 6.1 per cent in 1989-90. Most of the increase in 1989-90 was concentrated in equalization transfers to lower-income provinces. The impact of robust overall growth in provincial revenues in 1989, and in prior years as well, has resulted in significantly higher equalization payments to the provinces. Payments under the Canada Assistance Plan continued to grow strongly in 1989-90, reflecting an increase in provincial spending on eligible programs. In contrast, direct cash transfers to the provinces under the Established Programs Financing were lower in 1989-90 than in the previous year, despite the fact that total entitlements under this program are about 6 per cent higher. Total entitlements are sourced through a combination of tax point transfers and direct cash transfers. The lower cash payments reflect prior-year adjustments, coupled with the strength in tax bases throughout 1989-90 with the result that a larger portion of the overall transfer to the provinces was made through an increase in the value of the tax points.

The Fiscal Monitor

The decline in 1989-90 in other major subsidy and transfer payments primarily reflects developments in the agricultural and energy sectors. No net payments were made under the *Western Grain Stabilization Act* in 1989-90, while payments under the *Western Transportation Act* were lower due to a decline in grain shipments. Energy subsidies were lower, reflecting the termination of the Canadian Exploration and Development Incentives Program. The impact of these lower transfers was partially offset by increased transfers to natives and to regional development agencies. Payments to major Crown corporations were also lower in 1989-90, due to the expenditure restraint measures announced in previous budgets. The April 1989 budget reduction measures restrained the growth in spending in Defence and Official Development

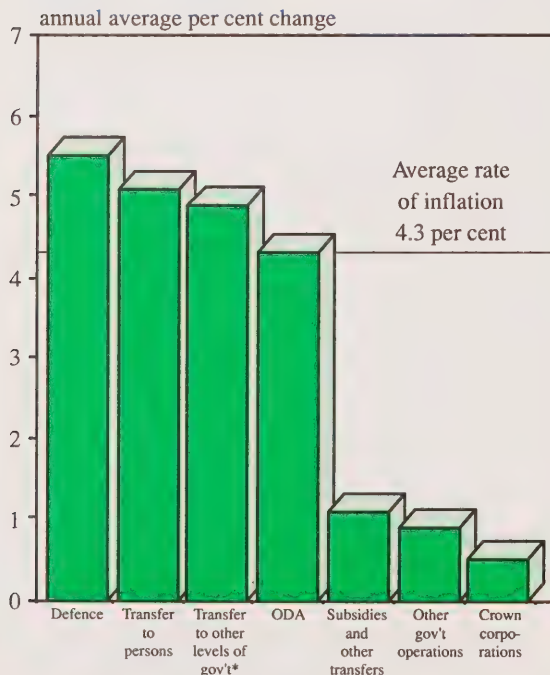
Assistance. The increase in other government operations primarily reflects the impact of retroactive wage settlements and a higher-than-normal lapse in 1988-89.

Financial Requirements

The government's net financial requirements reflect not only the difference between budgetary revenues and expenditures, but also the net source of funds generated in non-budgetary transactions. In 1989-90, non-budgetary transactions provided the government with a net source of funds amounting to \$8.5 billion, up \$1.7 billion from that provided in 1988-89. Most of the increase was due to the encashment in November 1988 of the accrued interest on the 1981 series of Canada Savings Bonds, which lowered the overall net source of funds in 1988-89.

As result, financial requirements, excluding foreign exchange transactions, were estimated at \$20.5 billion, \$1.5 billion lower than the 1988-89 requirements. There was a \$0.7 billion net requirement in 1989-90 for foreign exchange transactions, down considerably from the net requirement of \$5.7 billion in 1988-89. Total financial requirements in 1989-90, therefore, were \$21.2 billion, down \$6.5 billion from 1988-89. The 1989-90 requirements were financed by unmatured debt transactions of \$20.8 billion (\$28.0 billion in 1988-89) and a drawdown in cash balances of \$0.3 billion. Cash balances at March 31, 1990 stood at \$1.5 billion.

**Growth in Program Spending
1984-85 to 1989-90**



* Direct cash transfers only.

Canada-United States Comparison

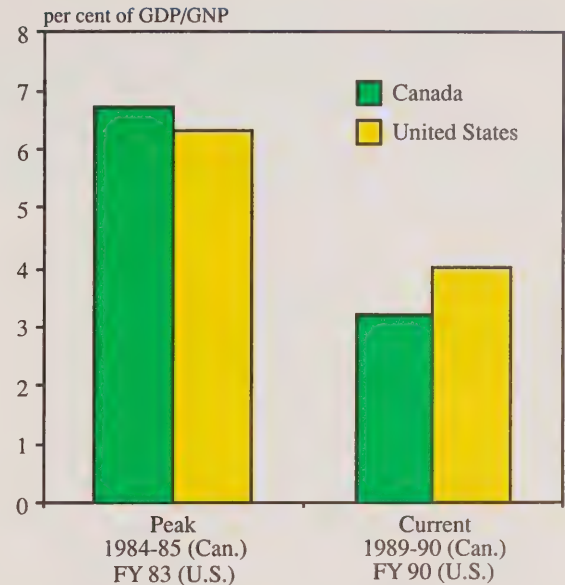
There are several differences in federal accounting practices in Canada and the United States which make the public accounts deficit in Canada not comparable with the deficit on a

unified budget basis in the United States. The unified budget balance in the United States includes sources of funds arising from certain trust funds. In Canada, these sources of funds are not included in the public accounts deficit, but are included in financial requirements. Thus, the appropriate fiscal comparison is between the Canadian financial requirements and the U.S. unified budget deficit.

On this basis, financial requirements in Canada, relative to the size of the economy, declined from a peak of 6.7 per cent in 1984-85 (fiscal year ending March 31) to 3.1 per cent in 1989-90. In the United States, the unified budget deficit is projected, by the U.S. Office of Management and Budget, to decline from the peak of 6.2 per cent in their fiscal year 1983 (fiscal year ending September 30) to 4.0 per cent in their fiscal year 1990. On this comparable basis, the fiscal position in Canada is now lower than that in the United States and has made more improvement and over a shorter time span. In Canada, program spending, as a percentage of the economy, has declined from a peak of 19.5 per cent in 1984-85 to 15.9 per cent in 1989-90, while in the United States,

program spending has declined from a peak of 21.4 per cent in fiscal year 1983 to 19.3 per cent in fiscal year 1990.

**Canada-U.S. Comparison
Financial Requirements vs Unified Budget Deficits**



Sources: Department of Finance, U.S. Office of Management and Budget.

Accounting Changes

In the February 1986 budget, the government introduced a number of accounting changes in response to certain reservations expressed by the Auditor General in his annual opinions on the government's financial statements. These accounting changes included the consolidation of a number of specified purpose accounts with the Accounts of Canada and the classifying of loans to developing countries as budgetary rather than non-budgetary to better reflect the concessional aspects of such loans.

However, the Auditor General has continued to express three reservations with respect to the

financial statements of the government. These are:

- the failure to include Crown corporations in the financial statements;
- the failure to fully record liabilities in respect of indexing employee pensions; and
- the failure to provide an appropriate allowance for Crown corporation borrowings, relating to receivables from sovereign states.

Since the February 1986 budget, the Standing Committee on Public Accounts has studied the issues which gave rise to the Auditor

General's reservations and has issued reports recommending changes to the government's accounting practices. The committee has recommended that the Minister of Finance and the President of the Treasury Board introduce accounting policy changes that would permit the Auditor General to remove his reservations on the government's audited financial statements. In addition, the Canadian Institute of Chartered Accountants has recently released recommendations on accounting for certain of these issues.

The government has reviewed the various reports and recommendations and agrees that certain accounting changes are in order. In the Public Accounts for 1989-90, scheduled for release in the fall of 1990, the government will introduce a number of accounting changes, which it believes will adequately address the concerns of the Auditor General. These include the consolidation in the financial statements of the activities of Crown corporations which rely heavily on government financial assistance and the recognition of an allowance for the full liability related to the indexed portion of the government's employee pension accounts. The

government continues to hold the view that all sovereign loans are ultimately collectible. However, the government considers it prudent to establish an allowance for general contingencies in light of evolving international strategies to address the international debt problem. In addition, the government will also treat all non-tax revenues on an accrual basis of accounting, rather than on a cash basis, and classify outstanding bonds issued to the Canada Pension Plan Account as part of unmatured debt rather than as part of non-budgetary transactions.

These accounting adjustments will be reflected in the Accounts of Canada on a retroactive basis, in recognition of when the events giving rise to the adjustments occurred. As a result of these changes, the accumulated deficit or net debt will be increased by about \$9 billion, with a significant portion of this increase occurring during the high inflation experience of the early 1980s. The impact on reported outcomes prior and subsequent to that period are marginal. The impact on the future years' deficits and financial requirements will depend upon developments at that time.

The information in this Monitor is based on preliminary financial results for 1989-90. For further information contact: P. DeVries at 996-7397. Cet imprimé est également offert en français.



The Fiscal Monitor

A Publication of the Department of Finance

September 1990

Highlights of Financial Results for April to June 1990

- In the first quarter of fiscal year 1990-91 (April to June), the federal deficit, on a public accounts basis, amounted to \$3.7 billion, \$2.9 billion lower than that recorded in the corresponding period of 1989-90.
- The operating balance recorded a surplus of \$6.9 billion, up \$4.0 billion from the surplus recorded in the first quarter of 1989-90.

Summary

In the first quarter of fiscal year 1990-91 (April to June), the budgetary deficit was \$3.7 billion, \$2.9 billion lower than that recorded in the corresponding period of 1989-90. The marked improvement in the deficit, on a year-over-year basis, primarily resulted from strength in personal income tax collections, and unemployment insurance contributions. The operating balance improved by \$4.0 billion relative to that recorded in the corresponding period in 1989-90, as budgetary revenues increased significantly faster than program spending.

Financial requirements, excluding foreign exchange transactions, are estimated at \$4.1 billion in the first quarter of 1990-91, \$3.2 billion lower than that recorded in the first quarter of 1989-90. Foreign exchange transactions in the first quarter of 1990-91 resulted in a net source of \$0.5 billion, compared to a net requirement of \$0.6 billion in the same period last year. As a result, total financial requirements, including foreign exchange transactions, are estimated at \$3.6 billion for the first quarter of 1990-91, down \$4.3 billion from the first quarter 1989-90 requirements.

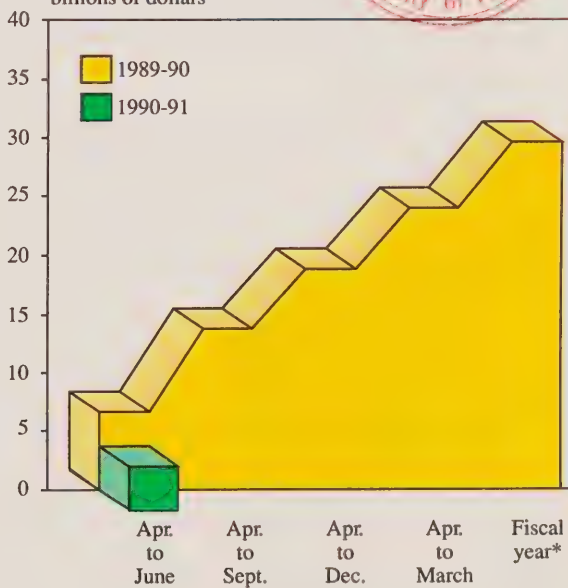
Quarterly figures can exhibit wide fluctuations, given the uneven timing of certain payments and receipts and the effective dates of policy measures. The outcome for the year as a whole will be dependent on economic conditions and interest rate

developments over the course of 1990-91. While higher-than-expected interest rates since the February 1990 budget will put upward pressure on public debt charges, the strong growth in budgetary revenues will provide some offset on the budgetary deficit.

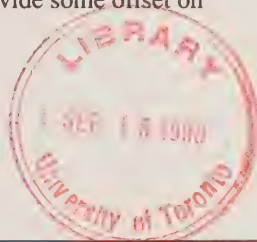
The Federal Deficit 1989-90 and 1990-91

Year to Date

billions of dollars



* Estimate.



The Fiscal Monitor

Table 1

Summary Statement of Transactions

	April to June		Per cent change
	1989-90	1990-91	
	(millions of dollars)		
A. Budgetary transactions			
1. Revenues	25,072	30,440	21.4
2. Program spending	-22,216	-23,548	6.0
3. Operating balance	2,856	6,892	141.3
4. Public debt charges	-9,425	-10,582	12.3
5. Deficit	-6,569	-3,690	-43.8
B. Non-budgetary transactions			
6. Loans, investments and advances	-86	-286	
7. Specified purpose accounts	1,971	3,472	
8. Other transactions	-2,579	-3,589	
9. Net source(+)/requirement(-)	-694	-403	
C. Financial requirements (excluding foreign exchange transactions)	-7,263	-4,093	
D. Foreign exchange transactions: net source(+)/requirement(-)	-631	531	
E. Total financial requirements	-7,894	-3,562	
F. Unmatured debt transactions	8,248	4,036	
G. Cash balance at end of period	2,189	1,986	

Table 2

Budgetary Revenues and Expenditures

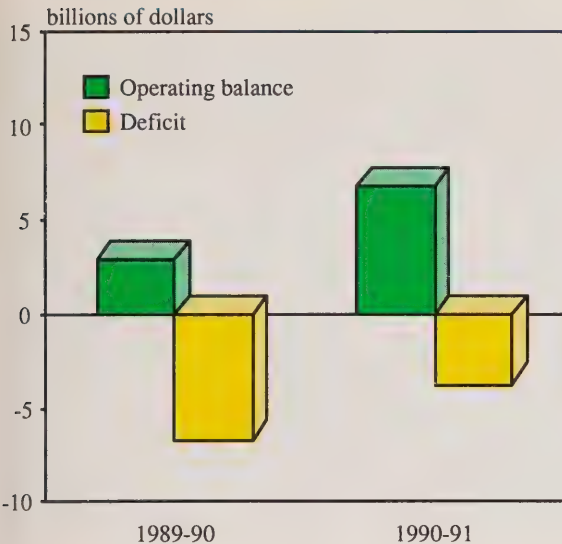
	April to June		Per cent change
	1989-90	1990-91	
	(millions of dollars)		
A. Budgetary revenues			
1. Personal income tax	11,982	16,088	34.3
2. Corporate income tax	2,505	2,394	-4.4
3. Unemployment insurance contributions	2,473	3,089	24.9
4. Sales and excise taxes/duties	6,409	6,831	6.6
5. Other revenues	1,703	2,038	19.7
6. Total budgetary revenues	25,072	30,440	21.4
B. Budgetary expenditures			
1. Major transfers to persons: of which	8,883	9,620	8.3
- Unemployment insurance program payments	2,990	3,493	16.8
- Old age security benefits	3,895	4,146	6.4
- Family allowances	658	675	2.6
2. Major transfers to other levels of government: of which	6,015	6,004	-0.2
- Established Programs Financing ⁽¹⁾	2,365	1,996	-15.6
- Fiscal transfers	2,279	2,380	4.4
- Canada Assistance Plan	1,237	1,499	21.2
3. Major subsidies and other transfers	1,574	1,771	12.5
4. Major payments to Crown corporations	998	1,131	13.3
5. Defence	1,908	2,081	9.1
6. Official Development Assistance ⁽²⁾	342	301	-12.0
7. Other government operations	2,496	2,640	5.8
8. Total program expenditures	22,216	23,548	6.0
9. Public debt charges	9,425	10,582	12.3
10. Total budgetary expenditures	31,641	34,130	7.9

⁽¹⁾ Cash portion only. Total EPF cash and tax transfers are up 1 per cent in 1990-91.

⁽²⁾ Budgetary cash portion only.

The Budgetary Deficit and the Operating Balance

Year Over Year, April to June



non-resident taxes increased by 19.7 per cent, with most of the increase attributable to the impact of interest rates on the interest sensitive components of return on investments.

Corporate profits were down 23 per cent in the first half of 1990, compared to the same period in 1989, thereby explaining the weakness in corporate income tax collections. Offsetting some of the impact of the lower corporate profits was the effect of corporate income tax reform introduced in 1988 and the introduction of the Large Corporations Tax.

Budgetary Expenditures

In the first quarter of 1990-91, budgetary expenditures were up 7.9 per cent, on a year-over-year basis. Public debt charges, the largest single component of budgetary expenditures, advanced by 12.3 per cent. The increase in public debt charges reflects the compounding effect of the increases in interest rates and the increase in the stock of debt.

Program spending advanced by 6.0 per cent in the first quarter of 1990-91, compared to the same period in 1989-90. Growth in spending on major transfers to persons was concentrated in higher unemployment insurance program and elderly benefit payments. The increase in unemployment insurance program benefits was due to increases in

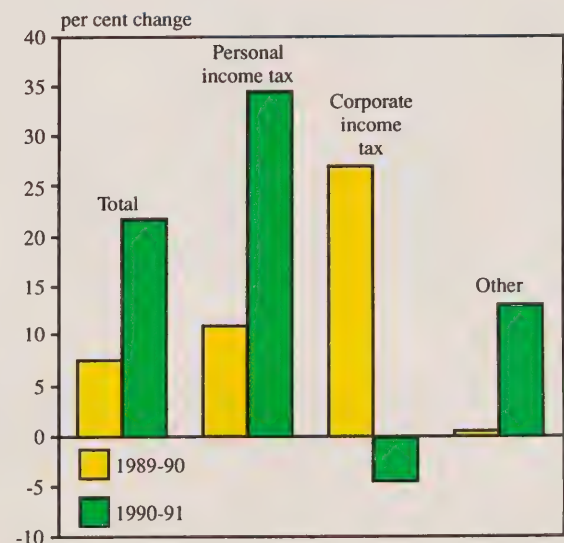
Budgetary Revenues

During the first quarter of 1990-91, budgetary revenues advanced 21.4 per cent on a year-over-year basis. The increase primarily reflects developments affecting personal income tax collections and unemployment insurance contributions. The strong growth in personal incomes in the first half of 1990 (up 9 per cent over the comparable 1989 period) contributed to the increase of 34.3 per cent in personal income tax collections. In addition, the year-over-year increase in personal income tax collections was affected by the transitional impact of personal income tax reform, which dampened the growth in collections in the first quarter of 1989-90. The increase in unemployment insurance contributions reflects a number of factors, notably the increases in premium rates and in maximum insurable earnings effective January 1990.

Sales and excise taxes and duties, which include the federal manufacturers' sales tax, customs import duties, and excise taxes, increased by 6.6 per cent on a year-over-year basis. The manufacturers' sales tax, which after personal income tax collections, is the largest component of budgetary revenues, is scheduled to be replaced by the Goods and Services Tax, effective January 1, 1991. Other revenues, consisting primarily of return on investments, other non-tax revenues, and

Budgetary Revenues: 1989-90 and 1990-91

April to June Year-Over-Year Growth



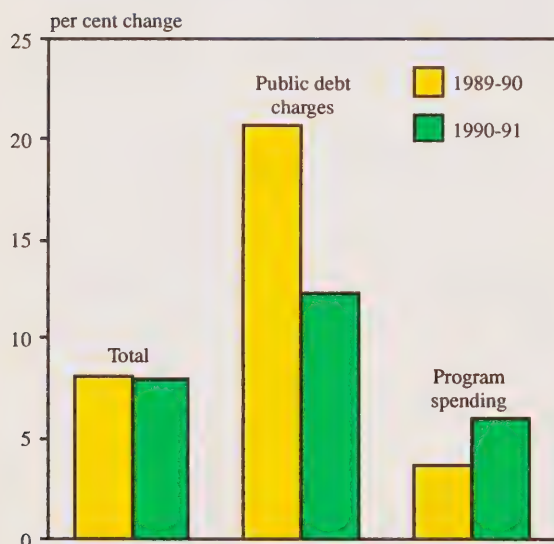
The Fiscal Monitor

both average benefits and in the number of beneficiaries. The increase in elderly benefits reflected increases in both average benefits, which are indexed to quarterly changes in the consumer price index, and the eligible population base.

The decline in major transfers to other levels of government was due to the Expenditure Control Plan announced in the February 1990 budget, which held the per capita Established Programs Financing (EPF) transfer to the 1989-90 level. As a result, total EPF entitlements are expected to increase by only 1 per cent in 1990-91. EPF entitlements are paid in the form of tax point transfers and cash. As the value of tax transfers is unaffected by this measure, this restraint initiative impacts only on cash transfers and accounts for the 15.6 per cent decline in cash transfers. Fiscal transfers, consisting primarily of equalization transfers to lower-income provinces, were up 4.4 per cent. Transfers under the Canada Assistance Plan were affected by the timing of payments.

Budgetary Expenditures: 1989-90 and 1990-91

April to June Year-Over-Year Growth



The information in this Monitor is based on financial statements for the first quarter ended June 30, 1990. For further information contact: P. DeVries at 996-7397. Cet imprimé est également offert en français.

The growth in major subsidy and other transfer payments primarily reflects increased transfers to natives and to railways under the *Western Grain Transportation Act*.

The increase in transfers to major Crown corporations primarily relates to the timing of payments to the various cultural agencies and to Canada Mortgage and Housing Corporation.

The Expenditure Control Plan limits the increase in both defence spending and Official Development Assistance transfers to 5 per cent in both 1990-91 and 1991-92. As a result, the year-over-year changes recorded in these two components in the first quarter of 1990-91 primarily reflect the timing of payments. The increase in spending on other government operations was attributable to the timing and recording of payments, both this fiscal year and in 1989-90, as well as the inclusion of retroactive payments relating to equal pay provisions.

Financial Requirements

Non-budgetary transactions in the first quarter of 1990-91 resulted in a net requirement of funds amounting to \$0.4 billion, down \$0.3 billion from that recorded in the corresponding period of 1989-90. With a deficit of \$3.7 billion and a net requirement of funds from non-budgetary transactions of \$0.4 billion, financial requirements, excluding foreign exchange transactions, amounted to \$4.1 billion in the first quarter of 1990-91, down \$3.2 billion from the requirements in 1989-90. Foreign exchange transactions resulted in a net source of funds of \$0.5 billion, compared to the requirement of \$0.6 billion in the first quarter of 1989-90. Total financial requirements, therefore, amounted to \$3.6 billion in the first quarter of 1990-91, down \$4.3 billion from the 1989-90 requirement. The 1990-91 requirement was financed through unmatured debt transactions of \$4.0 billion and a drawdown of \$0.5 billion in cash balances.



The Fiscal Monitor

A Publication of the Department of Finance

November 1990

Highlights of Financial Results for April to September 1990

- In the first six months of fiscal year 1990-91 (April to September), the federal deficit, on a public accounts basis, amounted to \$10.6 billion, \$3.0 billion lower than that recorded in the corresponding period of 1989-90.*
- The operating balance recorded a surplus of \$10.8 billion, up \$5.3 billion from the surplus recorded in the first six months of 1989-90.*
- Financial requirements, excluding foreign exchange transactions, were down \$2.8 billion from last year's level. In contrast, as a result of foreign exchange transactions, total financial requirements, at \$12.9 billion, were unchanged from the level recorded in the same period of 1989-90.*

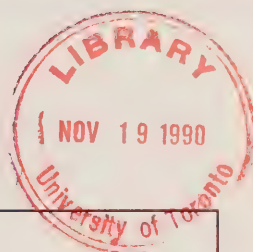
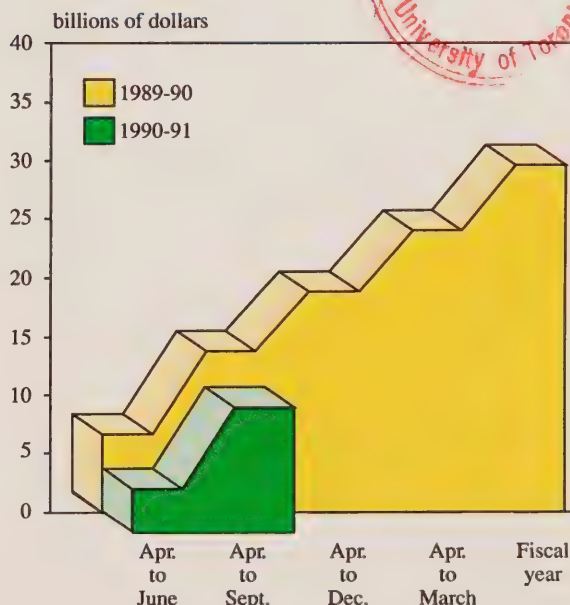
Summary

In the first six months of fiscal year 1990-91 (April to September), the budgetary deficit was \$10.6 billion, \$3.0 billion lower than that recorded in the corresponding period of 1989-90. The marked improvement in the deficit, on a year-over-year basis, primarily resulted from higher budgetary revenues, specifically personal income tax collections and unemployment insurance premium contributions, and the effects of the Expenditure Control Plan introduced in the February 1990 budget. The operating balance improved by \$5.3 billion relative to that recorded in the corresponding period in 1989-90, as budgetary revenues increased significantly faster than program spending.

Financial requirements, excluding foreign exchange transactions, amounted to \$8.6 billion in the first six months of 1990-91, \$2.8 billion lower than that recorded in the same period in 1989-90. Foreign exchange transactions in the first six

The Federal Deficit 1989-90 and 1990-91

Year to Date



The Fiscal Monitor

Table 1

Summary Statement of Transactions

	April to September		Per cent change
	1989-90	1990-91	
	(millions of dollars)		
A. Budgetary transactions			
1. Revenues	51,818	60,000	15.8
2. Program spending	-46,257	-49,151	6.3
3. Operating balance	5,561	10,849	95.1
4. Public debt charges	-19,132	-21,451	12.1
5. Deficit	-13,571	-10,602	-21.9
B. Non-budgetary transactions			
6. Loans, investments and advances	586	-31	
7. Specified purpose accounts	3,130	4,675	
8. Other transactions	-1,468	-2,603	
9. Net source(+)/requirement(-)	2,248	2,041	
C. Financial requirements (excluding foreign exchange transactions)	-11,323	-8,561	
D. Foreign exchange transactions: net source(+)/requirement(-)	-1,548	-4,336	
E. Total financial requirements	-12,871	-12,897	
F. Unmatured debt transactions	12,060	12,886	
G. Cash balance at end of period	1,021	1,499	

Table 2

Budgetary Revenues and Expenditures

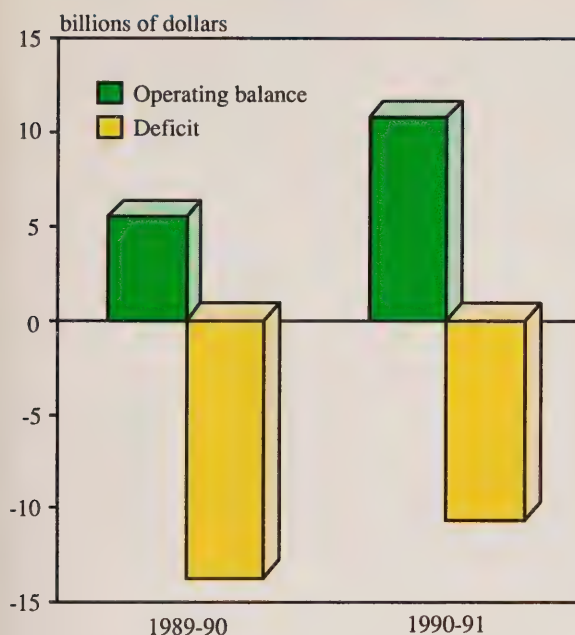
	April to September		Per cent change
	1989-90	1990-91	
	(millions of dollars)		
A. Budgetary revenues			
1. Personal income tax	24,770	30,729	24.1
2. Corporate income tax	4,824	4,997	3.6
3. Unemployment insurance contributions	5,027	6,295	25.2
4. Sales and excise taxes/duties	13,430	13,944	3.8
5. Other revenues	3,767	4,035	7.1
6. Total budgetary revenues	51,818	60,000	15.8
B. Budgetary expenditures			
1. Major transfers to persons: of which	17,550	18,519	5.5
- Unemployment insurance program payments	5,436	6,198	14.0
- Old age security benefits	7,892	8,409	6.6
- Family allowances	1,317	1,355	2.9
2. Major transfers to other levels of government: of which	12,007	12,579	4.8
- Established Programs Financing ⁽¹⁾	4,653	3,975	-14.6
- Fiscal transfers	4,520	4,824	6.7
- Canada Assistance Plan	2,456	2,895	17.9
3. Major subsidies and other transfers	3,218	3,880	20.6
4. Major payments to Crown corporations	1,816	2,074	14.2
5. Defence	4,519	5,144	13.8
6. Official Development Assistance ⁽²⁾	909	825	-9.2
7. Other government operations	6,238	6,180	-0.9
8. Total program expenditures	46,257	49,151	6.3
9. Public debt charges	19,132	21,451	12.1
10. Total budgetary expenditures	65,389	70,602	8.0

(1) Cash portion only. Total EPF cash and tax transfers are up 1.1 per cent in 1990-91.

(2) Budgetary cash portion only.

The Budgetary Deficit and the Operating Balance

Year Over Year, April to September



months of 1990-91 resulted in a net requirement of \$4.3 billion, compared to a net requirement of \$1.5 billion in the same period last year. As a result, total financial requirements, including foreign exchange transactions, amounted to \$12.9 billion for the first six months of 1990-91, unchanged from the requirements recorded in the same period in 1989-90.

Developments over the remainder of 1990-91 are expected to offset the improvement to date in the deficit. As noted in the February 1990 budget, the implementation of the proposed Goods and Services Tax on January 1, 1991 will result in some one-time transitional costs. For the current fiscal year, these include the prepayment of the Goods and Services Tax Credit in December 1990 and the rebate of the federal manufacturers' sales tax paid on inventories of new and used goods held on December 31, 1990. These transitional costs will reduce budgetary revenues by \$1.8 billion in 1990-91. As well, in the final quarter of fiscal year 1989-90, there were a number of cash management initiatives affecting the acceleration of tax payments by individuals

and corporations, which resulted in a one-time revenue gain of about \$1.4 billion. There are no such cash management initiatives for the final quarter of this fiscal year. In addition, the economic and interest rate developments since the February 1990 budget will put upward pressure on the deficit. As indicated by the Minister of Finance on September 17, 1990, the higher-than-expected interest rates since the February 1990 budget will put upward pressure on public debt charges and, therefore, the deficit. Although the deficit for 1990-91 is still expected to be less than \$30 billion, the final outcome could be \$1 billion to \$1 1/2 billion above the \$28.5 billion projected in the February 1990 budget.

Budgetary Revenues

During the first six months of 1990-91, budgetary revenues advanced 15.8 per cent on a year-over-year basis. The increase primarily reflects developments affecting personal income tax collections and unemployment insurance contributions. The strong growth in personal incomes in the first half of 1990 (up about 9 per cent over the comparable 1989 period) and lower personal income tax refunds were largely responsible for the increase of 24.1 per cent in personal income tax collections. Personal income tax refunds in the first six months of 1990-91 were over \$1 billion lower than in the same period in 1989-90. This was largely due to the transitional impact of personal income tax reform. Although most of the personal income tax reform measures became effective January 1, 1988, withholding tables were not adjusted until July 1, 1988, with the result that personal income tax refunds were substantially higher in the first six months of 1989-90. The prepayment of the Goods and Services Tax Credit and the impact of the 1989-90 cash management initiatives should all contribute to a significant slowing in the growth of personal income tax collections over the last half of the fiscal year. The increase in unemployment insurance contributions reflects a number of factors, notably the increases in premium rates and in maximum insurable earnings effective January 1990.

Sales and excise taxes and duties, which include the federal manufacturers' sales tax, customs

The Fiscal Monitor

As a result of these changes in accounting policy, the Auditor General has removed his reservations on the government's financial statements. This marks the first time since 1976-77 that the Auditor General has not expressed a reservation on the government financial statements.

Consistent with accounting practices, the accounting adjustments have been incorporated on a retroactive basis, in recognition of when the events giving rise to the adjustments occurred. As

a result of the accounting changes, the accumulated deficit, or net debt has been increased by \$8.4 billion, with most of the increase occurring during the high inflation experience of the late 1970s and early 1980s. The following table presents the adjusted deficit and net debt figures, in billions of dollars and as a percentage of gross domestic product, for the last fifteen years. The impact upon future years' deficits and financial requirements will depend upon developments at that time.

Historical Fiscal Reference Tables

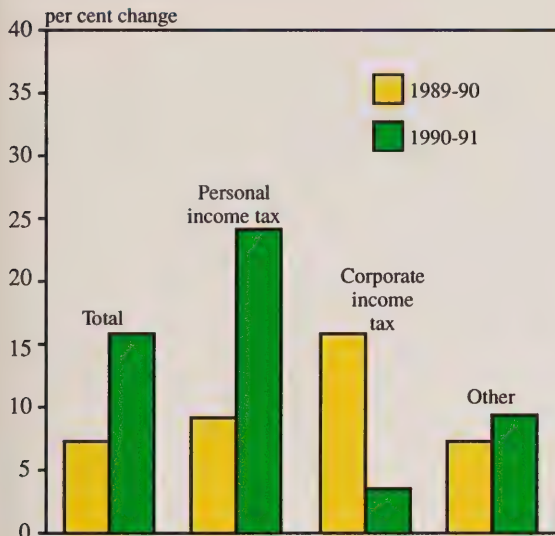
	Budgetary revenues		Program spending		Operating balance		Public debt charges		Budgetary deficit		Net public debt	
	(\$ M)	(% GDP)	(\$ M)	(% GDP)	(\$ M)	(% GDP)	(\$ M)	(% GDP)	(\$ M)	(% GDP)	(\$ B)	(% GDP)
1975-76	31,657	18.5	33,906	19.8	-2,249	-1.3	3,970	2.3	6,219	3.6	33.9	19.8
1976-77	34,408	17.4	36,479	18.4	-2,071	-1.0	4,708	2.4	6,779	3.4	40.7	20.6
1977-78	34,626	15.9	40,003	18.4	-5,377	-2.5	5,531	2.5	10,908	5.0	51.6	23.7
1978-79	36,974	15.3	43,049	17.8	-6,075	-2.5	7,024	2.9	13,099	5.4	64.7	26.8
1979-80	42,029	15.2	45,518	16.5	-3,489	-1.3	8,494	3.1	11,983	4.3	76.7	27.8
1980-81	48,867	15.8	52,512	16.9	-3,645	-1.1	10,658	3.4	14,303	4.6	91.0	29.4
1981-82	60,307	16.9	60,734	17.1	-427	-0.2	15,114	4.2	15,541	4.4	106.5	29.9
1982-83	60,662	16.2	72,493	19.4	-11,831	-3.2	16,903	4.5	28,734	7.7	135.3	36.1
1983-84	64,168	15.8	78,814	19.4	-14,646	-3.6	18,077	4.5	32,723	8.1	168.0	41.4
1984-85	71,056	16.0	87,113	19.6	-16,057	-3.6	22,455	5.0	38,512	8.7	206.5	46.4
1985-86	76,933	16.1	86,075	18.0	-9,142	-1.9	25,441	5.3	34,583	7.2	241.1	40.4
1986-87	85,931	17.0	90,006	17.8	-4,075	-0.8	26,658	5.3	30,733	6.1	271.8	53.8
1987-88	97,612	17.7	96,785	17.6	827	0.1	29,028	5.3	28,201	5.1	300.0	54.4
1988-89	104,067	17.2	99,849	16.5	4,218	0.7	33,169	5.5	28,951	4.8	329.0	54.5
1989-90	113,707	17.5	103,883	15.9	9,824	1.6	38,820	6.0	28,996	4.4	358.0	54.9

The information in this Monitor is based on preliminary financial statements for the first half ended September 30, 1990. For further information contact: P. DeVries at 996-7397. Cet imprimé est également offert en français.



Budgetary Revenues: 1989-90 and 1990-91

April to September
Year-Over-Year Growth



import duties, and excise taxes, increased by 3.8 per cent on a year-over-year basis. The increase in sales and excise taxes and duties is attributable to the April 1989 budget measures which increased the various sales and gasoline tax rates and the tobacco excise tax levies. The manufacturers' sales tax which is the second largest component of budgetary revenues, is scheduled to be replaced by the Goods and Services Tax, effective January 1, 1991. Other revenues, consisting primarily of return on investments, other non-tax revenues, and non-resident taxes increased by 7.1 per cent, with most of the increase attributable to the impact of interest rates on the interest sensitive components of return on investments.

Although corporate profits are estimated to have declined by 25 per cent in the first half of 1990 compared to the same period in 1989, corporate income tax collections were up 3.6 per cent in the first six months of 1990-91. Offsetting the impact of the lower corporate profits to date has been the effect of corporate income tax reform measures introduced in 1988 and the introduction of the Large Corporations Tax.

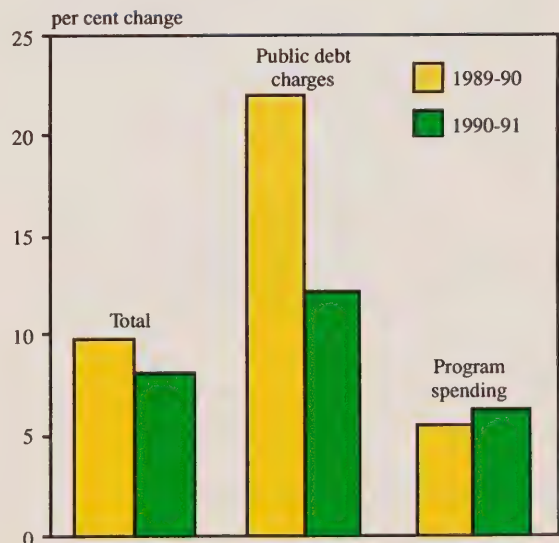
Budgetary Expenditures

In the first six months of 1990-91, budgetary expenditures were up 8.0 per cent, on a year-over-year basis. Public debt charges, the largest single component of budgetary expenditures, advanced by 12.1 per cent, in sharp contrast to the increase of 4.4 per cent expected in the February 1990 budget for the year as a whole. The increase in public debt charges reflects the compounding effect of the higher-than-expected increases in interest rates since the February 1990 budget and the increase in the stock of debt.

Program spending advanced by 6.3 per cent in the first six months of 1990-91, compared to the same period in 1989-90. Growth in spending on major transfers to persons was concentrated in higher unemployment insurance program and elderly benefit payments. The increase in unemployment insurance program benefits was due to increases in both average benefits and in the number of beneficiaries. The increase in elderly benefits reflects increases in both average benefits, which are indexed to quarterly changes in the consumer price index, and the eligible population base.

Budgetary Expenditures: 1989-90 and 1990-91

April to September
Year-Over-Year Growth



The increase in major transfers to other levels of government was largely due to higher Canada Assistance Plan transfers and to payments to provincial crop insurance plans. Under the Canada Assistance Plan, the federal government provides funds to provinces and territories to help them pay for certain social assistance benefits and services. Enrichments to provincial plans, as well as increased caseloads due to the current economic environment, have resulted in the higher transfers. Fiscal transfers, consisting primarily of equalization transfers to lower-income provinces, were up 6.7 per cent. In contrast, cash transfers under Established Programs Financing (EPF) declined, due to the Expenditure Control Plan announced in the February 1990 budget, which held per capita EPF transfers constant at the 1989-90 levels. As a result, total EPF entitlements are expected to increase by only 1 per cent in 1990-91. EPF entitlements are paid in the form of tax point transfers and cash. As the value of tax transfers is unaffected by this measure, this restraint initiative impacts only on cash transfers and accounts for the 14.6 per cent decline in cash transfers.

The increase in major subsidy and other transfer payments primarily reflects developments in the agricultural sector, including the ad hoc assistance to western grain producers and higher payments to railways under the *Western Grain Transportation Act*. Most of the increase in the remaining programs in this component reflects the timing of payments. The increase in transfers to major Crown corporations primarily relates to the timing of payments to the various cultural agencies and to Canada Mortgage and Housing Corporation. In contrast, subsidy payments to VIA Rail and Canada Post Corporation were lower, reflecting the impact of past restraint measures.

The Expenditure Control Plan limits the increase in both defence spending and Official Development Assistance transfers to 5 per cent in both 1990-91 and 1991-92. As a result, the year-over-year changes recorded in these two components in the first six months of 1990-91 primarily reflect the timing of payments. Spending on other government operations was largely unchanged from last year's levels.

Financial Requirements

Non-budgetary transactions in the first six months of 1990-91 resulted in a net source of funds amounting to \$2.0 billion, down \$0.2 billion from that recorded in the corresponding period of 1989-90. Financial requirements, excluding foreign exchange transactions, therefore, amounted to \$8.6 billion in the first six months of 1990-91, down \$2.8 billion from the requirements in 1989-90.

Foreign exchange transactions resulted in a net requirement of funds of \$4.3 billion, compared to a net requirement of \$1.5 billion in the first six months of 1989-90. As a result of the higher foreign exchange requirements, total financial requirements were unchanged from last year's earlier levels, at \$12.9 billion.

Revisions to Historical Data

The Public Accounts for 1989-90 were released by the President of the Treasury Board on Monday, October 29, 1990. The Public Accounts for 1989-90 incorporated several accounting changes, which addressed concerns expressed in the past by the Auditor General of Canada, the House of Commons Standing Committee on the Public Accounts, and the accounting profession. These include the consolidation in the financial statements of the activities of Crown corporations which rely heavily on the government for financial assistance and the recognition of an allowance for the liability related to the indexed portion of the government's employee pension accounts. The government still holds the view that all sovereign loans are ultimately collectible. However, it considers it prudent to establish an allowance for general contingencies in the light of evolving international strategies to address the international debt problem. In addition, non-tax revenues are now being reported on an accrual basis of accounting, rather than on a cash basis, and outstanding bonds to the Canada Pension Plan Account are being treated as part of unmatured debt rather than as part of non-budgetary transactions.

he Fiscal Monitor

A Publication of the Department of Finance

February 1991

Highlights of Financial Results for April to December 1990

- In the first nine months of fiscal year 1990-91 (April to December), the federal deficit, on a public accounts basis, amounted to \$18.9 billion, virtually unchanged from that recorded in the corresponding period of 1989-90.
- The operating balance recorded a surplus of \$13.2 billion, up \$2.8 billion from the surplus recorded in the first nine months of 1989-90. However, this improvement was offset by higher public debt charges.
- Financial requirements, excluding foreign exchange transactions, were up \$0.4 billion from last year's level to \$19.6 billion.

Summary

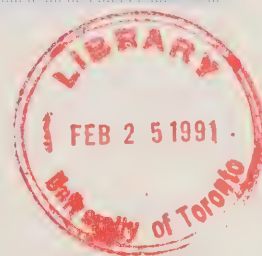
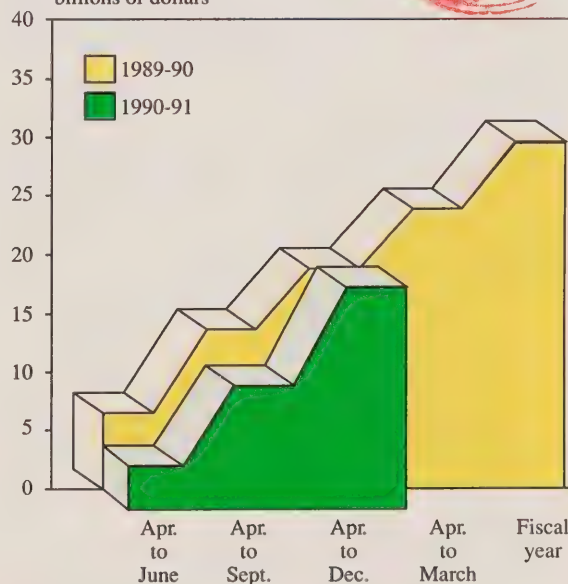
In the first nine months of fiscal year 1990-91 (April to December), the budgetary deficit was \$18.9 billion, up \$0.1 billion from that recorded in the corresponding period of 1989-90. The operating balance improved by \$2.8 billion relative to the previous year, as the growth in budgetary revenues continued to outpace that of program spending. However, the effect of the improvement in the operating balance was completely offset by higher public debt charges, and as a result the deficit was virtually unchanged from the year earlier.

The improvement in the deficit that had been witnessed during the first six months of 1990-91 was completely offset by developments in the third quarter of the fiscal year. Most of this turnaround was attributable to developments affecting budgetary revenues. These included the prepayment of the Goods and Service Tax

The Federal Deficit 1989-90 and 1990-91

Year to Date

billions of dollars



The Fiscal Monitor

Financial Requirements

Non-budgetary transactions in the first nine months of 1990-91 resulted in a net requirement for funds amounting to \$0.7 billion, up \$0.3 billion from that recorded in the corresponding period of 1989-90. Financial requirements, excluding foreign exchange transactions, therefore, amounted to \$19.6 billion in the first nine months of 1990-91, up \$0.4 billion from the requirements in the corresponding period of 1989-90.

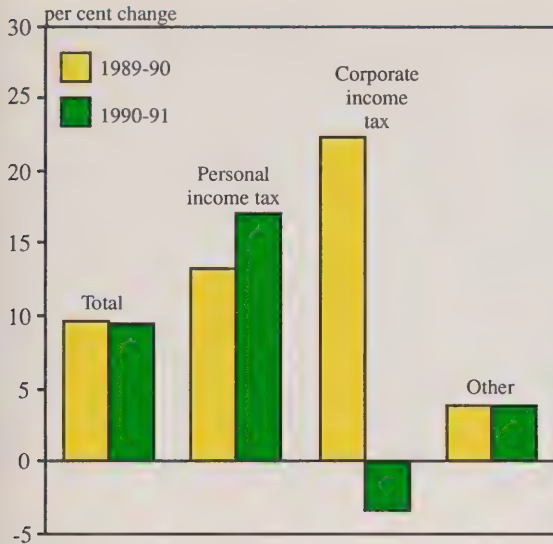
Foreign exchange transactions resulted in a net source of funds of \$0.4 billion. As a result, total financial requirements were virtually unchanged from last year's level, at \$19.2 billion. Unmatured debt transactions in the first nine months of 1990-91 amounted to \$22.0 billion. Cash balances at the end of December 1990 were \$4.3 billion.

The information in this Monitor is based on preliminary financial statements for the first nine months of fiscal year 1990-91. For further information contact: P. DeVries at 996-7397. Cet imprimé est également offert en français.



Budgetary Revenues: 1989-90 and 1990-91

April to December
Year-Over-Year Growth



Indirect taxes, which include the federal manufacturers' sales tax, customs import duties, and excise taxes, declined by 2.7 per cent on a year-over-year basis. The decline in this component is attributable to the prepayment of the Goods and Service Tax Credit (\$0.6 billion) to lower- and modest-income Canadians in December 1990 and the weakness in consumer demand and business spending. The phase-out of tariffs under the Canada-United States Free Trade Agreement has also contributed to lower customs import duties. The replacement of the manufacturers' sales tax with the Goods and Services Tax on January 1, 1991, will further dampen the overall growth in indirect taxes, as the manufacturers' sales tax already paid on inventories of new and unused goods held on December 31, 1990 will be rebated. Other revenues, consisting primarily of return on investments, other non-tax revenues, and non-resident taxes, declined slightly.

Although corporate profits have declined by almost 25 per cent in 1990 compared to 1989,

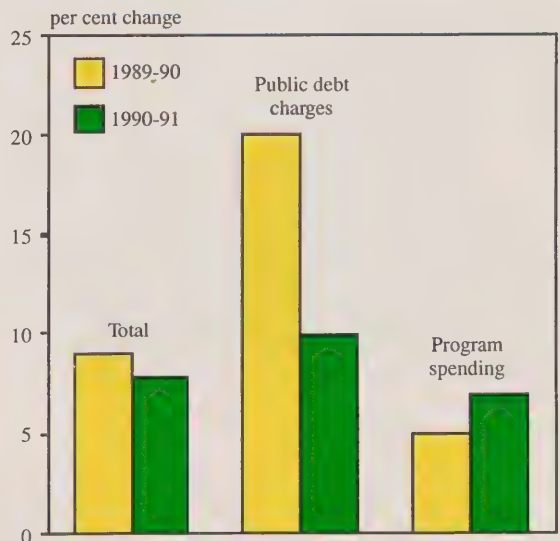
corporate income tax collections are down by only 3.4 per cent in the first nine months of 1990-91. Offsetting the impact of the lower corporate profits to date has been the effect of corporate income tax reform measures introduced in 1988 and the introduction of the Large Corporations Tax.

Budgetary Expenditures

In the first nine months of 1990-91, budgetary expenditures were up 7.9 per cent, on a year-over-year basis. Public debt charges, the largest single component of budgetary expenditures, advanced by 9.9 per cent, in sharp contrast to the increase of 4.4 per cent expected in the February 1990 budget for the year as a whole. The increase in public debt charges reflects the compounding effect of the higher-than-expected interest rates since the February 1990 budget and the increase in the stock of debt.

Budgetary Expenditures: 1989-90 and 1990-91

April to December
Year-Over-Year Growth



Program spending advanced by 7.0 per cent in the first nine months of 1990-91, compared to the same period in 1989-90. Growth in spending on major transfers to persons was concentrated in higher unemployment insurance program, up 19.3 per cent over year earlier. Program spending, excluding unemployment insurance benefits, increased by 5.4 per cent. The increase in unemployment insurance program benefits was due to increases in both average benefits and in the number of beneficiaries. Elderly benefit payments were up 6 per cent, reflecting increases in both average benefits, which are indexed to quarterly changes in the consumer price index, and the eligible population base.

The increase in major transfers to other levels of government was largely due to higher Canada Assistance Plan transfers. Under the Canada Assistance Plan, the federal government provides funds to provinces and territories to help them pay for certain social assistance benefits and services. Enrichments to provincial plans, as well as increased caseloads due to the current economic environment, have resulted in the higher transfers. Fiscal transfers, consisting primarily of equalization transfers to lower-income provinces, were up 5.2 per cent.

In contrast, cash transfers under Established Programs Financing (EPF) declined, due to the Expenditure Control Plan announced in the February 1990 budget, which held per capita EPF transfers constant at the 1989-90 levels. As a result, total EPF entitlements are expected to increase by only 1 per cent in 1990-91. EPF entitlements are paid in the form of tax point transfers and cash. As the value of tax transfers is unaffected by this measure, this restraint initiative impacts only on cash transfers and accounts for the 11.1 per cent decline in cash transfers.

The decline in major subsidy and other transfer payments primarily reflects developments in the agricultural sector, reflecting both the timing of payments as well as the impact of new cost-sharing programs with the provinces. Grants and contributions to Indian and Inuit programs are up substantially, while the increase in transportation reflects higher payments to railways under the *Western Grain Transportation Act*. Most of the increase in the remaining programs in this component reflects the timing of payments.

The increase in transfers to major Crown corporations primarily relates to the timing of payments to the various cultural agencies and to Canada Mortgage and Housing Corporation. In contrast, subsidy payments to VIA Rail and Canada Post Corporation were lower, reflecting the impact of past restraint measures.

Defence spending is up due mainly to the timing of payments associated with capital spending and incremental costs associated with activities related to the Gulf. Defence spending for the year as a whole is expected to be \$350 million higher than budgeted due to the war in the Gulf.

The Expenditure Control Plan limits the increase in Official Development Assistance transfers to 5 per cent in both 1990-91 and 1991-92. The increase in spending on other government operations was largely due to retroactive equal pay payments and administration costs associated with implementation of the Goods and Services Tax, along with the timing of various other payments. For the rest of the fiscal year, spending on other government operations will be restrained in order to offset the funding provided to Defence for its Gulf activities.

The Fiscal Monitor

A Publication of the Department of Finance

June 1991

Highlights of Financial Results for April 1990 to March 1991

- The deficit, prior to standard supplementary period accounting adjustments, was \$27.6 billion, \$3.6 billion higher than that recorded in the comparable period in 1989-90.
- Full-year deficit results for 1990-91 will not be available until the supplementary period adjustments are fully incorporated into the financial data. However, results to date suggest that the final deficit outcome for 1990-91 should be consistent with the February 1991 budget estimate of \$30.5 billion.
- Goods and Services Tax revenues are currently \$0.4 billion higher than estimated in the February 1991 budget due to timing of receipts relating to the distribution of filers.
- For the 1990-91 fiscal year as a whole, financial requirements, excluding foreign exchange transactions, are estimated at \$24.5 billion, up \$4.1 billion from the amount required in 1989-90, and \$0.7 billion higher than the February 1991 budget estimate.

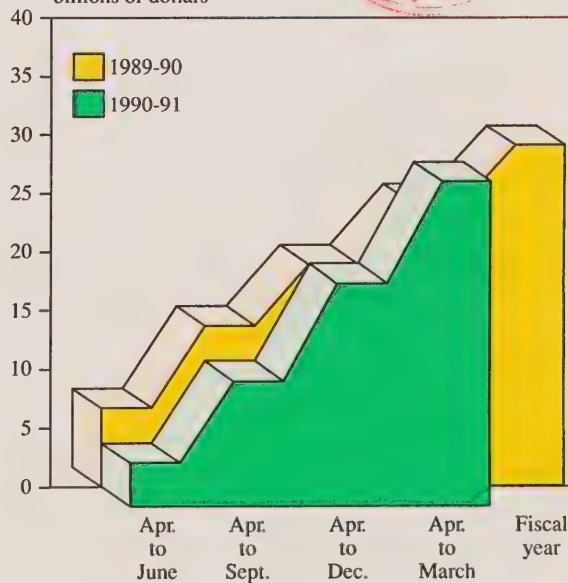
Summary

Over the period April 1990 to March 1991, the budgetary deficit was \$27.6 billion, \$3.6 billion higher than that recorded in the corresponding period of 1989-90. These results, however, are not the full-year deficit results for fiscal year 1990-91. Still to be determined are the standard accounting adjustments recorded in the "supplementary period". Consistent with the government's accounting principles, these "supplementary period" adjustments primarily reflect the recording of the costs of goods and services provided to the government prior to the end of March. Adjustments are also made to budgetary revenues, primarily to reflect cash in transit at year end. The supplementary period adjustments can vary significantly from year to year and in the past, have ranged from \$3.1 billion in 1986-87 to \$5.0 billion in 1989-90. In fiscal year 1990-91, the deficit in the supplementary period is expected to be at the low end of this range. The March 1991 revenue and deficit results were adversely affected by the

The Federal Deficit 1989-90 and 1990-91

Year to Date

billions of dollars



The Fiscal Monitor

Table 1

Summary Statement of Transactions

	April to March		Per cent change
	1989-90	1990-91	
	(millions of dollars)		
A. Budgetary transactions			
1. Revenues	112,957	119,329	5.6
2. Program spending	98,135	104,218	6.2
3. Operating surplus	14,822	15,111	1.9
4. Public debt charges	38,767	42,675	10.1
5. Deficit	-23,945	-27,564	15.1
B. Non-budgetary transactions			
6. Loans, investments and advances	677	65	
7. Specified purpose accounts	5,602	6,407	
8. Other transactions	-2,727	-3,374	
9. Net source(+)/requirement(-)	3,552	3,098	
C. Financial requirements (excluding foreign exchange transactions)	-20,393	-24,466	
D. Foreign exchange transactions: net source(+)/requirement(-)	-718	-4,900	
E. Total financial requirements	-21,111	-29,366	
F. Unmatured debt transactions	20,814	30,523	
G. Cash balance at end of period	1,534	2,666	

Table 2

Budgetary Revenues and Expenditures

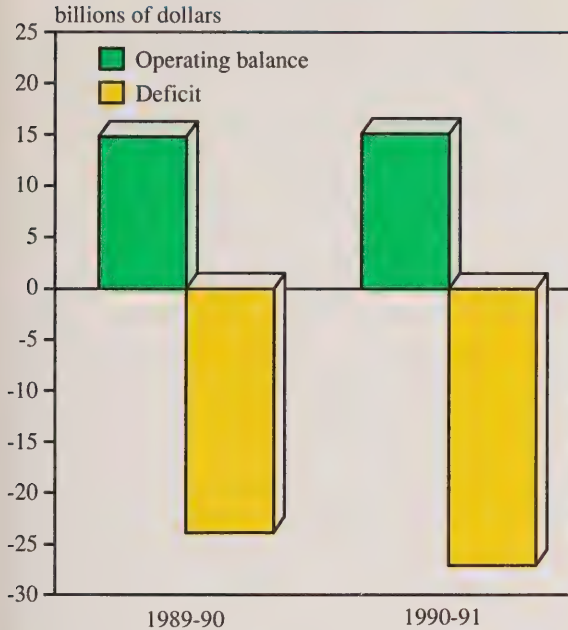
	April to March		Per cent change
	1989-90	1990-91	
	(millions of dollars)		
A. Budgetary revenues			
1. Personal income tax	52,293	59,541	13.9
2. Corporate income tax	12,557	11,044	-12.0
3. Unemployment insurance contributions	10,731	12,725	18.6
4. Sales and excise taxes/duties	27,682	25,609	-7.5
5. Other revenues	9,694	10,410	7.4
6. Total budgetary revenues	112,957	119,329	5.6
B. Budgetary expenditures			
1. Major transfers to persons: of which	31,926	35,577	11.4
– Unemployment insurance program payments	11,850	14,388	21.4
– Old age security benefits	16,149	17,127	6.1
– Family allowances	2,653	2,736	3.1
2. Major transfers to other levels of government: of which	23,554	23,899	1.5
– Established Programs Financing ⁽¹⁾	8,829	7,895	-10.6
– Fiscal transfers	9,839	10,014	1.8
– Canada Assistance Plan	4,885	5,990	22.6
3. Major subsidies and other transfers	8,329	7,869	-5.5
4. Major payments to Crown corporations	4,194	4,363	4.0
5. Defence	10,248	11,184	9.1
6. Official Development Assistance ⁽²⁾	2,272	2,187	-3.7
7. Operations of government	17,612	19,139	8.7
8. Total program expenditures	98,135	104,218	6.2
9. Public debt charges	38,767	42,675	10.1
10. Total budgetary expenditures	136,902	146,893	7.3

(1) Cash portion only. Total EPF cash and tax transfers are up 1 per cent in 1990-91.

(2) Budgetary cash portion only.

The Budgetary Deficit and the Operating Balance 1989-90 and 1990-91

Year Over Year, April to March



timing of the Easter holiday, which fell at the end of March, resulting in a delay in the receipt of revenues from the last week of March to the first week of April. However, as these revenues relate to fiscal year 1990-91, they will be recorded in the supplementary period and result in a lower-than-usual supplementary period deficit.

All of the year-over-year deterioration in the deficit was attributable to higher public debt charges, as the operating surplus – the difference between budgetary revenues and program spending – improved by \$0.3 billion. Once the “supplementary period” adjustments are taken into account, the deficit for the year as a whole should be in line with the February 1991 budget estimate of \$30.5 billion.

Financial requirements are largely unaffected by the “supplementary period” adjustments. Preliminary results for fiscal year 1990-91 indicate that financial requirements, excluding foreign exchange transactions, were \$24.5 billion.

These results are \$0.7 billion higher than the February 1991 budget estimate. The higher requirement was largely related to the delay in the receipt of certain revenues due to the Easter holiday. This, however, should not have an adverse impact on the final deficit outcome for 1990-91, as these revenues will be credited to budgetary revenues in the “supplementary period”.

Foreign exchange transactions in 1990-91 resulted in a net requirement of \$4.9 billion, compared to a requirement of only \$0.7 billion in 1989-90. As a result, total financial requirements, including foreign exchange transactions, are estimated at \$29.4 billion for 1990-91, up \$8.3 billion from the 1989-90 requirements.

Budgetary Revenues

Budgetary revenues over the April 1990 to March 1991 period have been affected by a number of factors, including the impact of personal income tax reform, the transition to the Goods and Services Tax (GST), changes to the financing of the unemployment insurance program, and the recession. On a year-over-year basis, budgetary revenues are up 5.6 per cent.

Lower personal income tax refunds and continued growth in personal incomes during calendar year 1990 (up about 7 1/2 per cent over the comparable 1989 period) were largely responsible for the 13.9 per cent increase in personal income tax collections. Personal income tax refunds in the April 1990 to March 1991 period were over \$1 billion lower than in the same period in 1989-90. This was largely due to the transitional impact of personal income tax reform. Although most of the personal income tax reform measures became effective January 1, 1988, withholding tables were not adjusted until July 1, 1988, with the result that personal income tax refunds were substantially higher in 1989-90.

In contrast, corporate income tax revenues were down 12.0 per cent. The recession is having a pronounced effect on corporate profits. Rising unit labour costs and weakening demand have

payments to VIA Rail and Canada Post Corporation were lower, reflecting the impact of past restraint measures.

The increase in defence spending reflects the formula-funded nature of the program, as well as the incremental costs associated with activities related to the hostilities in the Gulf. Assistance to developing countries under Official Development Assistance declined on a year-over-year basis, due solely to the timing of payments. Total assistance for the year as a whole is expected to grow, as specified under the Expenditure Control Plan. Although spending on other government operations was up 8.7 per cent, most of this increase was attributable to the timing and recording of payments, both this fiscal year and in 1989-90. It is expected that the year-over-year growth in this component will moderate in the supplementary period, bringing the results for the year as a whole in line with the February 1991 budget estimate.

Total budgetary expenditures to date appear to be consistent with the February 1991 budget projection. The Expenditure Control Plan, first introduced in the February 1990 budget, has effectively restrained the growth in many components of program spending. In addition, the decline in interest rates since May 1990 has dampened the growth in public debt charges.

Financial Requirements

Non-budgetary transactions for the April 1990 to March 1991 period resulted in a net source of funds amounting to \$3.1 billion, down \$0.5 billion from that recorded in the corresponding period of 1989-90. With a deficit of \$27.6 billion and a net source of funds from non-budgetary transactions of \$3.1 billion, financial requirements, excluding foreign exchange transactions, amounted to \$24.5 billion in 1990-91, up \$4.1 billion from 1989-90 and \$0.7 billion higher than the February 1991 budget estimate for 1990-91. The higher-than-expected outcome appears to be largely due to the timing of receipts and, as a result, the deficit outcome for 1990-91 should be consistent with the February 1991 budget estimate.

In 1990-91, foreign exchange transactions resulted in a net requirement of \$4.9 billion, in sharp contrast to the requirement of only \$0.7 billion in 1989-90. Foreign exchange transactions are primarily directed towards promoting orderly conditions in the Canadian dollar exchange market.

Total financial requirements, therefore, amounted to \$29.4 billion in 1990-91, up \$8.3 billion from the 1989-90 requirement. The 1990-91 requirement was financed through unmatured debt transactions of \$30.5 billion. Cash balances as of March 31, 1991 stood at \$2.7 billion.

The information in this Monitor is based on preliminary financial results for the period ended March 31, 1991. For further information contact: P. DeVries at 996-7397. Cet imprimé est également offert en français.



Budgetary Expenditures

Budgetary expenditures were up 7.3 per cent, on a year-over-year basis. Public debt charges, the largest single component of budgetary expenditures, advanced by 10.1 per cent, while program spending was up 6.2 per cent. The increase in public debt charges reflects the compounding effect of the high interest rates in the first half of 1990, coupled with the increase in the stock of debt. Since May 1990, short-term interest rates have declined by more than 475 basis points. This decline in interest rates will dampen future increases in public debt charges.

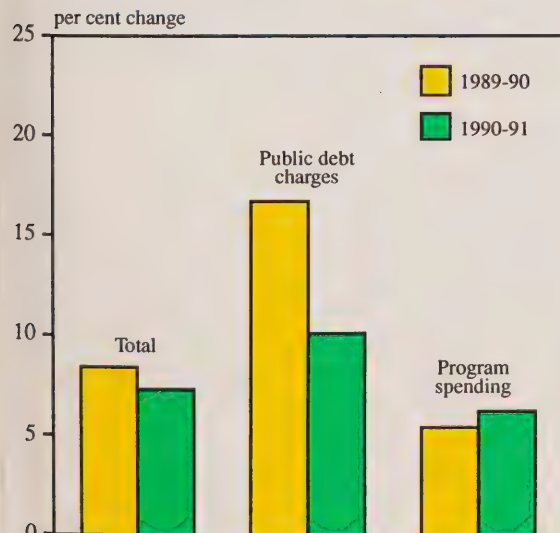
The year-over-year increase in program spending was largely attributable to the surge in unemployment insurance benefits as a result of the recession. With the economy in recession, unemployment insurance benefits are up 21.4 per cent, with about two-thirds of the increase attributable to advances in the number of beneficiaries, primarily in Ontario, and the remainder due to increases in the average weekly benefit rate. Among the other programs

within major transfers to persons, elderly benefit payments were up 6.1 per cent, reflecting increases in both average benefits, which are indexed to quarterly changes in the consumer price index, and the eligible population base.

The increase in major transfers to other levels of government was largely due to higher Canada Assistance Plan transfers. Under the Canada Assistance Plan, the federal government provides funds to provinces and territories to help them pay for certain social assistance benefits and services. Prior-year adjustments, especially to Ontario, as well as increased caseloads due to the current economic environment, have resulted in the higher transfers. Fiscal transfers, consisting primarily of equalization transfers to lower-income provinces, were up only 1.8 per cent, due to the impact of large one-time payments in 1989-90 relating to underpayments in previous years. Cash transfers under Established Programs Financing (EPF) declined, due to the Expenditure Control Plan announced in the February 1990 budget, which held per capita EPF transfers constant at the 1989-90 levels. As a result, total EPF entitlements are expected to increase by only 1 per cent in 1990-91. EPF entitlements are paid in the form of tax point transfers and cash. As the value of tax transfers is unaffected by this measure, this restraint initiative impacts only on cash transfers and accounts for the 10.6 per cent decline in cash transfers.

Budgetary Expenditures: 1989-90 and 1990-91

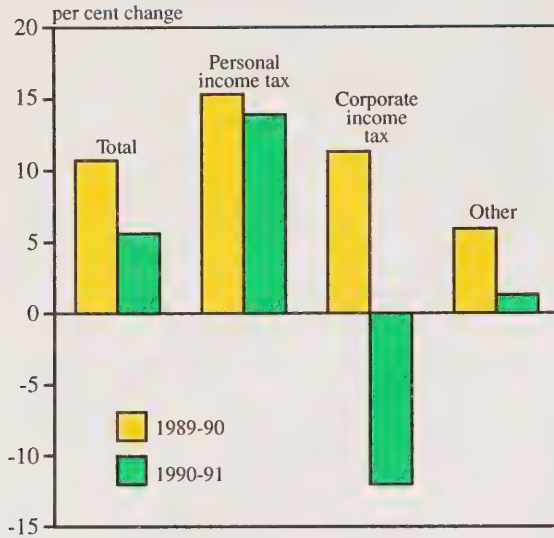
April to March
Year-Over-Year Growth



The decline in major subsidy and other transfer payments primarily reflects lower grants and contributions to the agricultural sector and for regional development. The decline in agricultural transfers was largely due to the timing of payments as well as the impact of new cost-sharing programs with the provinces, while the decline in regional development transfers reflects a lower take-up due to the recession. In contrast, grants and contributions to Indian and Inuit programs were up substantially. The increase in transfers to major Crown corporations was attributable to higher payments to the various cultural agencies and to Canada Mortgage and Housing Corporation. In contrast, subsidy

Budgetary Revenues: 1989-90 and 1990-91

April to March
Year-Over-Year Growth



left corporate profit margins at their lowest levels since the 1981-1982 recession. Corporate profits have declined steadily since the third quarter of 1988 and by the end of 1990 were 40 per cent below their pre-recession peak. However, the decline in collections to date has been less than the cumulative decline in profits, owing to the impact of the base-broadening measures introduced as part of the 1988 Income Tax Reform and the introduction of the Large Corporations Tax.

Beginning in 1990, the financing provisions of the unemployment insurance program changed, whereby the full cost of the program is financed through employee-employer premiums. This change in financing was to be phased in over three years. Previously, the federal government financed certain components of the program. As a result, premium rates were increased, effective January 1, 1990, which accounts for most of the year-over-year advance in unemployment insurance contributions.

Sales and excise taxes and duties, which include the federal manufacturers' sales tax (FST), the GST, customs import duties, and excise taxes, declined by 7.5 per cent on a year-over-year basis. This decline is largely attributable to the transitional costs associated with the replacement of the FST with the GST. As detailed in both the February 1990 and February 1991 budgets, these costs include the prepayment of the Goods and Services Tax Credit (\$0.6 billion) to lower- and modest-income Canadians in December 1990 and the rebate of FST paid on inventories of new and unused goods held on December 31, 1990 (\$1.2 billion). In addition, the impact of the recession on consumer demand and the phase-out of tariffs under the Canada-United States Free Trade Agreement have also contributed to lower revenues in this component. GST revenues collected in the last fiscal quarter of 1990-91 – (\$2.2 billion) were higher than estimated in the February 1991 budget (\$1.8 billion). However, the higher-than-estimated revenues appear to relate to the timing of receipts, rather than to any underestimation of the GST tax base. In this context, there are three classes of GST filers – monthly, quarterly, and annual. There are more monthly filers than originally estimated, with a corresponding decline in quarterly filers. As a result, monies expected from quarterly filers in April 1991 were in fact received in February and March, resulting in an acceleration in GST revenue collections.

The year-over-year increase in other revenues reflects higher earnings from the activities of the Exchange Fund Account.

The year-to-date result for total budgetary revenues appears to be consistent with the February 1991 budget estimate for the year as a whole. The Easter holiday, which fell at the end of March, resulted in a delay in the receipt of some revenues. These revenues, which relate to the 1990-91 fiscal year, will be recorded in the "supplementary period" and credited to the 1990-91 fiscal year, and should bring the final budgetary revenue outcome for 1990-91 in line with the February 1991 budget estimate.

The Fiscal Monitor

A Publication of the Department of Finance

September 1991

Highlights of Financial Results for April 1991 to June 1991

- In the first quarter of fiscal year 1991-92 (April to June), the federal deficit, on a public accounts basis, amounted to \$9.4 billion, \$5.7 billion higher than that recorded in the corresponding period of 1990-91.
- An increase in the deficit in the first quarter of 1991-92 was expected in the February 1991 fiscal forecast, reflecting both the transitional costs associated with the introduction of the Goods and Services Tax and impact of the recession on revenues and expenditures.

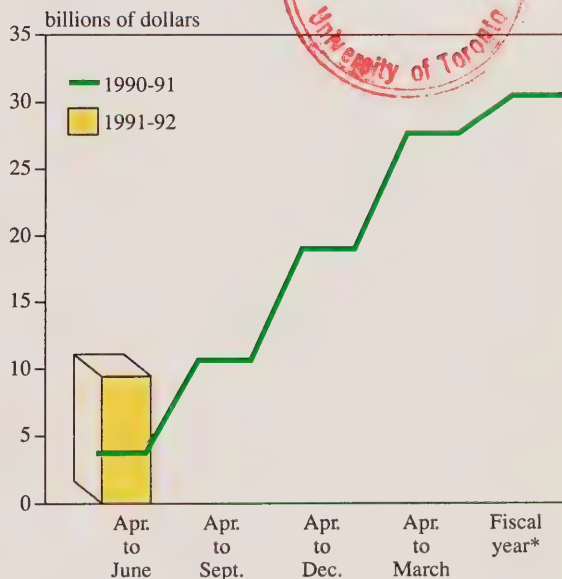
Summary

In the first quarter of fiscal year 1991-92 (April to June), the budgetary deficit was \$9.4 billion, \$5.7 billion higher than that recorded in the corresponding period of 1990-91. This deterioration in the deficit, on a year-over-year basis, largely resulted from the lagged effects of the recession on both budgetary revenues and program spending, as well as the transitional costs associated with replacing the federal manufacturers' sales tax (FST) by the Goods and Services Tax (GST) and the timing of receipts and payments. Dampening the overall impact of these factors on the deficit was a decline in public debt charges, reflecting the sharp decline in interest rates since May 1990.

These developments were largely expected and are consistent with the February 1991 budget deficit forecast of \$30.5 billion for the 1991-92 fiscal year. On a year-over-year basis, the deficit should begin to decline in the second half of 1991-92, reflecting the continued improvement in the economy, the ending of the transitional costs

The Federal Deficit 1990-91 and 1991-92

Year to Date



The Fiscal Monitor

Table 1

Summary Statement of Transactions

	April to June			
	1988-89	1989-90	1990-91	1991-92
	(millions of dollars)			
A. Budgetary transactions:				
1. Revenues	23,327	25,072	30,440	27,356
2. Program spending	-21,454	-22,216	-23,548	-26,342
3. Operating surplus	1,873	2,856	6,892	1,014
4. Public debt charges	-7,808	-9,425	-10,582	-10,365
5. Deficit	-5,935	-6,569	-3,690	-9,351
B. Non-budgetary transactions: net source(+)/requirement(-)	644	-694	-789	-2,555
C. Financial requirements (excluding foreign exchange transactions)	-5,291	-7,263	-4,479	-11,906
D. Foreign exchange transactions: net source(+)/requirement(-)	-3,094	-631	531	1,484
E. Total financial requirements	-8,385	-7,894	-3,948	-10,422
F. Unmatured debt transactions	9,397	8,248	4,422	8,457
G. Cash balance at end of period	2,546	2,189	1,986	606

Table 2

Budgetary Revenues and Expenditures

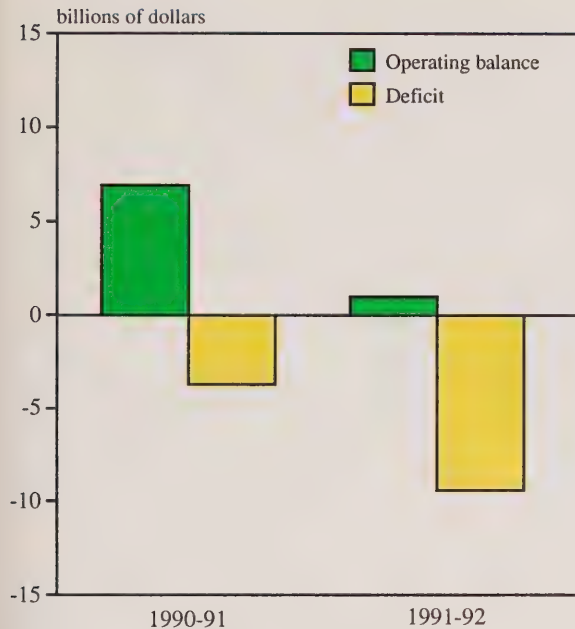
	April to June		Per cent change
	1990-91	1991-92	
	(millions of dollars)		
A. Budgetary revenues			
1. Personal income tax	16,088	16,443	2.2
2. Corporate income tax	2,394	1,799	-24.9
3. Unemployment insurance contributions	3,089	3,269	5.8
4. Goods and Services Tax		3,095	
5. Sales and excise taxes/duties	6,831	1,369	-80.0
6. Other revenues	2,038	1,381	-32.2
7. Total budgetary revenues	30,440	27,356	-10.1
B. Budgetary expenditures			
1. Major transfers to persons: of which	8,643	10,284	19.0
- Unemployment insurance program payments	3,493	4,816	37.9
- Old age security benefits	4,146	4,442	7.1
- Family allowances	675	698	3.4
2. Major transfers to other levels of government: of which	5,873	6,205	5.7
- Established Programs Financing ⁽¹⁾	1,995	1,922	-3.7
- Fiscal transfers	2,380	2,465	3.6
- Canada Assistance Plan	1,499	1,818	21.3
3. Other major transfers	1,806	2,026	12.2
4. Major payments to Crown corporations	1,081	1,052	-2.7
5. Defence	2,081	2,381	14.4
6. Official Development Assistance ⁽²⁾	301	471	56.5
7. Operations of government	3,763	3,923	4.3
8. Total program expenditures	23,548	26,342	11.9
9. Public debt charges	10,582	10,365	-2.1
10. Total budgetary expenditures	34,130	36,707	7.6

⁽¹⁾ Cash portion only. Total EPF cash and tax transfers are up 1 per cent in 1991-92.

⁽²⁾ Budgetary cash portion only.

The Budgetary Deficit and the Operating Balance: 1990-91 and 1991-92

April to June
Year Over Year



associated with sales tax reform, and the impact of the fiscal measures announced in the February 1991 budget.

Financial requirements, excluding foreign exchange transactions, amounted to \$11.9 billion in the first quarter of 1991-92, \$7.4 billion higher than that recorded in the first quarter of 1990-91. Foreign exchange transactions in the first quarter of 1991-92 resulted in a net source of funds amounting to \$1.5 billion, compared to \$0.5 billion in the same period last year. As a result, total financial requirements, including foreign exchange transactions, were \$10.4 billion for the first quarter of 1991-92, up \$6.5 billion from the first quarter 1990-91 requirements.

Budgetary Revenues

During the first quarter of 1991-92, budgetary revenues declined 10.1 per cent on a year-over-year basis. The decline reflects the impact of the

recession and the transitional costs associated with replacing the FST with the GST, as well as the timing of receipts. As expected in the February 1991 budget projections, the recession has had a pronounced effect on corporate profits and has also dampened the growth in personal incomes. Corporate profits have declined steadily since the fourth quarter of 1988, in part due to relatively high growth in unit labour costs. In the first quarter of 1991, corporate profits were 65 per cent below their pre-recession peak and nearly 50 per cent below the same quarter in 1990. As a result, corporate income tax collections declined 24.9 per cent in the first quarter of 1991-92 from the same period last year. The decline in collections is less than the decline in profits owing to the impact of the Large Corporations Tax and base-broadening measures introduced as part of the 1988 Income Tax Reform. The recession has also slowed the growth in personal incomes, through the dampening effect of lower employment. Personal income tax collections were up only 2.2 per cent in the first quarter of 1991-92. Personal income tax collections in the first quarter of 1991-92 were also affected by the timing of receipts, as there was one less pay period in the April-June 1991 period than in the corresponding period in 1990.

The other major factor lowering budgetary revenues in the first quarter of 1991-92 was the impact of the one-time transitional costs associated with the replacement of the FST by the GST. These include the repayment of FST paid on new and unused inventories held at the end of 1990 and the transitional grant to small business. In addition, with sales tax reform, the refundable federal sales tax credit (FST credit) to low-income Canadians, which was paid at the time of tax filing, was replaced by the enhanced low-income GST credit, which is paid quarterly. The first quarter 1991-92 results are affected, not only by the payment of the quarterly GST low-income credit, but also by the payment of the refundable FST credit with respect to the 1990 taxation year.

Net GST collections in the first quarter of 1991-92, which amounted to \$3.1 billion, were affected by the payment of the small business transitional grant and timing factors. In order to assist small business, a one-time transitional

Debt Servicing and Reduction Account

The government has introduced legislation into the House of Commons to establish the Debt Servicing and Reduction Account. Upon Royal Assent of the legislation, all GST revenues net of the applicable rebates and credits, net proceeds from the sale of Crown corporations and gifts to the Crown identified for debt reduction will be credited to this Account. The revenues in this Account will be used only to pay interest on the

public debt and, ultimately, the public debt. This Account, in conjunction with the proposed *Spending Control Act*, which was released in draft form by the Minister of Finance on July 12, 1991, will ensure that GST revenues will not be used to fund new program spending.

As noted above, net GST collections amounted to \$3.1 billion. These revenues will be deposited in the Debt Servicing and Reduction Account, once the applicable legislation receives Royal Assent.

Table 3

Summary Statement of Transactions Restated for Proposed Debt Servicing and Reduction Account: April to June 1991-92

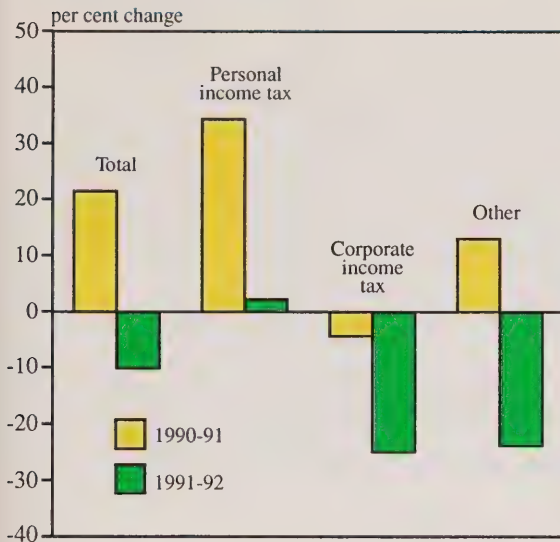
	(millions of dollars)
A. Proposed Debt Servicing and Reduction Account	
1. GST revenues	3,095
2. Other	—
3. Total receipts	3,095
4. Public debt charges	10,365
5. Balance	-7,270
B. Other budgetary transactions	
1. Revenues (excluding GST)	24,261
2. Program spending	26,342
3. Balance	-2,081
C. Deficit	-9,351

The information in this Monitor is based on financial results for the quarter ended June 30, 1991. For further information contact: P. DeVries at 996-7397. Cet imprimé est également offert en français.



Budgetary Revenues: 1990-91 and 1991-92

April to June
Year-Over-Year Growth



credit is available, which is netted against GST remittances otherwise payable. The cost of this transitional credit is estimated at \$0.9 billion in 1991-92, with most of it being paid in the first few months of 1991-92. As the credit is netted against remittances, reported collections will be corresponding lower. In addition, some collections which would typically be received in June were delayed due to the Canada Day weekend and were received in early July instead. The collections to date, however, continue to be consistent with the February 1991 budget projections.

Other revenues, consisting primarily of return on investments, other non-tax revenues, and non-resident taxes declined by 32.2 per cent. This decline reflects, in part, the acceleration of Bank of Canada profits remittances as announced in the February 1990 budget which resulted in a one-time fiscal saving in 1990-91, as well as the impact of lower interest rates on the interest sensitive components of return on investments.

Unemployment insurance contributions increased by 5.8 per cent on a year-over-year basis. This

increase is attributable to the increase in maximum insurable earnings, effective January 1991, which is the base for the calculation of unemployment insurance contributions. Premium rates for the first six months of 1991 were unchanged from 1990. However, as announced in the February 1991 budget, these rates were increased effective July 1, 1991.

Weakness in budgetary revenues in the first quarter of 1991-92 was expected. Over the remaining quarters of 1991-92, budgetary revenues should pick up, given the ending of the transitional costs of sales tax reform, the continued improvement in the economy, and the impact of the February 1991 budget measures.

Budgetary Expenditures

In the first quarter of 1991-92, budgetary expenditures were up 7.6 per cent on a year-over-year basis. Public debt charges, the largest single component of budgetary expenditures, declined by 2.1 per cent. The decline in public debt charges reflects the impact of the decline in interest rates, especially short-term rates, which by the end of June 1991 were more than 500 basis points below May 1990 levels.

Program spending advanced by \$2.8 billion or 11.9 per cent in the first quarter of 1991-92, compared to the same period in 1990-91. Most of the year-over-year increase reflects the impact of the recession on the cyclically sensitive components of spending (unemployment insurance benefit payments and Canada Assistance Plan transfers) and to the timing of payments.

About half of the increase in program spending was due to higher unemployment insurance benefit payments. As noted in the February 1991 budget, the recession was expected to result in a surge in unemployment insurance benefits – in fact the number of beneficiaries is up about 30 per cent over last year's level. With the beginning of the recovery, the growth in unemployment

insurance benefits should begin to moderate over the course of the fiscal year. The recession was also largely responsible for an increase in Canada Assistance Plan transfers to the provinces. Although growth in such transfers to Ontario, Alberta, and British Columbia were capped in the February 1990 budget to increase by no more than 5 per cent in 1991-92, the impact of this measure will not be felt until later in the fiscal year.

The first quarter 1991-92 program spending results have also been affected by the timing of certain payments, especially in the areas of defence, Official Development Assistance, and other major transfers. Developments over the remaining months of 1991-92 should bring these growth rates in line with the February 1991 budget projections.

Among the other elements of program spending, the increase in elderly benefits reflects increases in both average benefits, which are indexed to quarterly changes in the consumer price index, and the eligible population base. The decline in Established Programs Financing (EPF) cash transfers reflects the impact of the February 1990 budget measure which limited the overall increase in EPF entitlements in 1991-92 to reflect changes

in population only, implying a growth of about 1 per cent. EPF entitlements are paid in the form of tax point transfers and cash. As the value of tax transfers is unaffected by this measure, this restraint initiative impacts only on cash transfers, which declined by 3.7 per cent. The growth in fiscal transfers, consisting primarily of equalization transfers to lower-income provinces, primarily reflects the impact of prior-year adjustment payments made in the first quarter of 1990-91. The decline in transfers to major Crown corporations primarily relates to lower subsidy payments to VIA Rail and Canada Post Corporation, reflecting the impact of past restraint measures. The increase in spending on other government operations reflects the timing of payments, as well as the controls on wage increases and operating costs which were announced in the February 1991 budget.

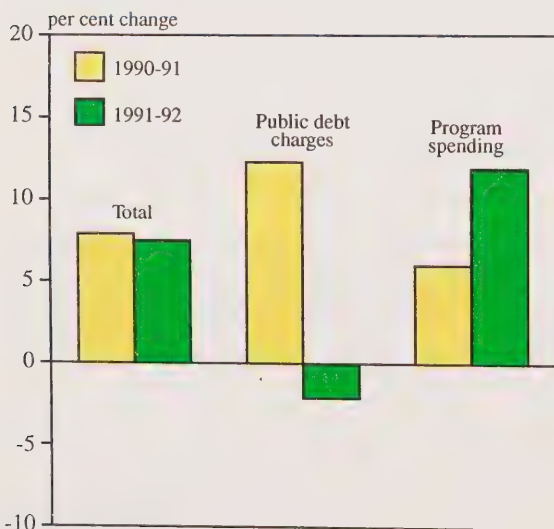
Financial Requirements

Non-budgetary transactions in the first quarter of 1991-92 resulted in a net requirement of funds amounting to \$2.6 billion, compared to \$0.8 billion recorded in the corresponding period of 1990-91. Most of this increase was due to a loan to the Canada Deposit and Insurance Corporation to assist the corporation in advancing insurance funds to eligible depositors of the Standard Trust Company and Standard Loan Company. With a deficit of \$9.4 billion and a net requirement of funds from non-budgetary transactions of \$2.6 billion, financial requirements, excluding foreign exchange transactions, amounted to \$11.9 billion in the first quarter of 1991-92, up \$7.4 billion from the requirements in 1990-91.

Foreign exchange transactions resulted in a net source of funds of \$1.5 billion, compared to a source of \$0.5 billion in the first quarter of 1990-91. Total financial requirements, therefore, amounted to \$10.4 billion in the first quarter of 1991-92, up \$6.5 billion from the 1990-91 requirements. The 1991-92 requirement was financed through unmatured debt transactions of \$8.5 billion and a drawdown of \$2.0 billion in cash balances.

Budgetary Expenditures: 1990-91 and 1991-92

April to June
Year-Over-Year Growth



The Fiscal Monitor

A Publication of the Department of Finance

October 1991

Highlights of the Preliminary Financial Results for 1990-91

- The preliminary deficit result for 1990-91, on a public accounts basis, is \$30.6 billion. This preliminary estimate is in line with the February 1991 budget estimate of \$30.5 billion.
- As a percentage of the economy, the deficit has declined from 8.7 per cent in 1984-85 to 4.6 per cent in 1990-91.
- Financial requirements (excluding foreign exchange transactions) were \$24.5 billion in 1990-91, or 3.7 per cent of GDP.
- Program spending in 1990-91 grew by 3.4 per cent, substantially below the rate of inflation of 4.8 per cent. As a percentage of the economy, program spending has declined from 19.6 per cent in 1984-85 to 16 per cent in 1990-91.

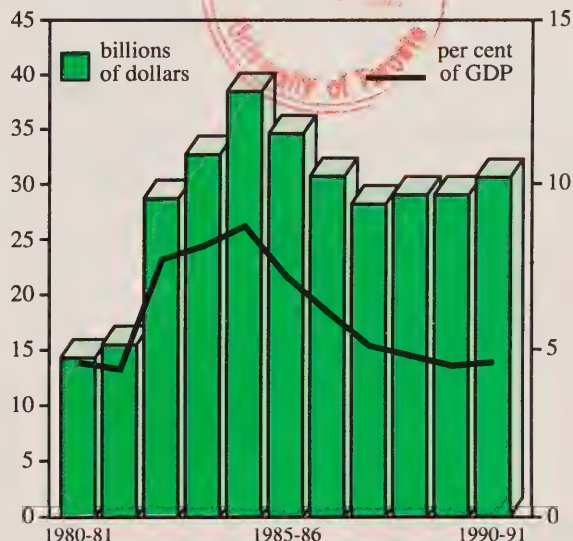
Summary

Preliminary results for the fiscal year 1990-91 indicate that the budgetary deficit of the Government of Canada was \$30.6 billion, in line with the February 1991 budget estimate of \$30.5 billion. Final results for 1990-91 will be published in the Public Accounts of Canada scheduled for release in the late fall.

Between 1984-85 and 1990-91, the deficit has declined from \$38.5 billion to \$30.6 billion. As a percentage of gross domestic product (GDP), the deficit has declined from a postwar peak of 8.7 per cent in 1984-85 to 4.6 per cent in 1990-91. The operating balance – the difference between budgetary revenues and program spending – has swung from a deficit of \$16.1 billion in 1984-85 to a surplus of \$11.9 billion in 1990-91. About two-thirds of this turnaround of \$28 billion has been achieved through program spending restraint (Table 1). However, the extent of the improvement in the deficit has been limited by ballooning debt interest payments. Public debt charges have increased from \$22.5 billion in 1984-85 to \$42.5 billion in 1990-91. Since 1987-88 inclusive, public debt charges have been larger than the entire public accounts deficit.

The net public debt – the cumulation of budgetary deficits and surpluses since Confederation – stood at \$388.6 billion as of March 31, 1991, or 57.9 per cent of GDP. This represents an increase of \$182.1 billion in net

Chart 1
The deficit



The Fiscal Monitor

Table 1

Key Fiscal Indicators

	1984-85	1990-91	Change	Relative contribution
	(per cent of GDP)			(per cent)
Operating balance				
Budgetary revenues	16.0	17.8	1.8	33
Program spending	19.6	16.0	-3.6	67
Operating surplus/deficit (-)	-3.6	1.8	5.4	100
Budgetary deficit				
Public debt charges	5.0	6.3	1.3	
Budgetary deficit	-8.7	-4.6	4.1	

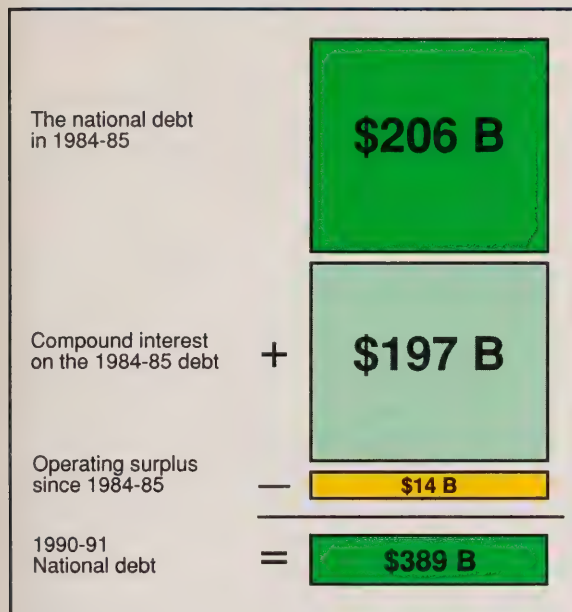
Note: Totals may not add due to rounding.

Table 2

Summary Statement of Transactions: Preliminary Outcome for 1990-91

	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91
	(billions of dollars)						
A. Budgetary transactions							
1. Revenues	71.1	76.9	85.9	97.6	104.1	113.7	119.4
2. Program spending	87.1	86.1	90.0	96.8	99.8	103.9	107.4
3. Operating balance	-16.1	-9.1	-4.1	0.8	4.2	9.8	11.9
4. Public debt charges	22.5	25.4	26.7	29.0	33.2	38.8	42.5
5. Deficit	-38.5	-34.6	-30.7	-28.2	-29.0	-29.0	-30.6
B. Net public debt	206.5	241.1	271.8	300.0	329.0	358.0	388.6
C. Non-budgetary transactions: net source(+)/requirement(-)	8.7	4.1	7.8	9.4	6.5	8.5	6.1
D. Financial requirements (excluding foreign exchange transactions)	-29.8	-30.5	-22.9	-18.8	-22.5	-20.5	-24.5
E. Foreign exchange transactions: net source (+)/requirement(-)	2.4	5.6	-6.4	-7.1	-5.7	-0.7	-4.9
F. Total financial requirements	-27.4	-24.9	-29.3	-26.0	-28.2	-21.2	-29.4
G. Unmatured debt transactions	26.8	23.8	29.2	22.9	28.5	20.9	30.5
H. Cash balance at end of period	5.9	4.7	4.6	1.5	1.8	1.5	2.6
Memorandum: As a percentage of gross domestic product							
Deficit	8.7	7.2	6.1	5.1	4.8	4.5	4.6
Financial requirement (excluding foreign exchange transactions)	6.7	6.4	4.5	3.4	3.7	3.2	3.7
Program spending	19.6	18.0	17.8	17.5	16.5	16.0	16.0
Net public debt	46.4	50.4	53.8	54.4	54.4	55.1	57.9

Chart 2
The debt treadmill:
How compound interest pushed up the debt



public debt since 1984-85. However, as shown in Chart 2, all of the increase in the net debt since 1984-85 is attributable to the compound interest on the stock of debt in 1984-85, as the government has run a cumulative operating surplus of \$14 billion since that time.

The deficit in 1990-91 was up \$1.6 billion compared to 1989-90. All of this increase in the deficit between 1989-90 and 1990-91 was attributable to higher public debt charges, as the operating surplus improved by \$2.1 billion to \$11.9 billion, notwithstanding the impact of the recession.

The preliminary deficit estimate for 1990-91 is in line with the February 1991 budget estimate. However, there are some significant differences among the various components. Budgetary revenues, at \$119.4 billion, are \$1.4 billion lower than estimated, reflecting the impact of the recession on the applicable tax bases. However, the lower-than-expected outcome for revenues is virtually offset by lower budgetary expenditures. Program spending is down by \$0.9 billion from the level estimated in the February 1991 budget, while public debt charges are down by \$0.4 billion.

Non-budgetary transactions provided the government with a net source of funds amounting to \$6.1 billion, while foreign exchange transactions resulted in a net requirement of \$4.9 billion. As a result, total financial requirements amounted to \$29.4 billion. This was financed by unmatured debt transactions of \$30.5 billion, resulting in an increase in cash balances of \$1.1 billion to \$2.6 billion.

Budgetary Revenues

Budgetary revenues in 1990-91 increased by 5.0 per cent to \$119.4 billion. The growth in budgetary revenues slowed considerably in 1990-91, reflecting the impact of the recession, particularly on corporate profits, and the transition to the Goods and Services Tax (GST).

Personal income tax revenues, the largest component of budgetary revenues, increased by 11.0 per cent in 1990-91, down slightly from the increase of 12.8 per cent recorded in 1989-90. The lower rate of growth primarily reflects the effect of the recession on personal incomes, which were up 7 1/2 per cent in 1990 compared to an increase of 8 per cent in 1989. However,

Chart 3
The deficit and the operating balance

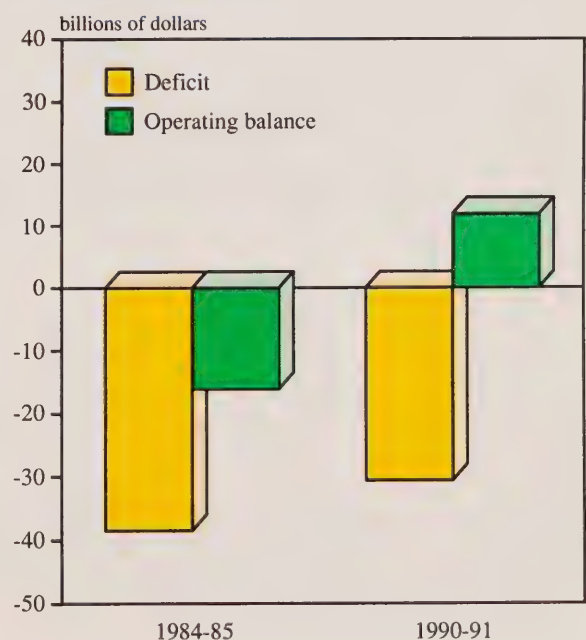


Table 3

Budgetary Revenues

	1984-85	1989-90	1990-91	Year-over-year change		Annual average 1984-85 to 1990-91
				1989-90	1990-91	
	(millions of dollars)			(per cent)		
1. Personal income tax	29,254	51,895	57,601	12.8	11.0	12.0
2. Corporate income tax	9,379	13,021	11,726	11.0	-9.9	3.8
3. Unemployment insurance contributions	7,553	10,738	12,707	-4.7	18.3	9.1
4. Sales and excise taxes/duties	18,177	28,155	23,569	9.3	-16.3	4.4
5. Goods and services tax	—	—	2,574	—	—	—
6. Other revenues	6,693	9,898	11,176	6.8	12.9	8.9
7. Total budgetary revenues	71,056	113,707	119,353	9.3	5.0	9.0

offsetting much of the impact of the recession on personal income tax collections were lower personal income tax refunds. Personal income tax refunds in 1990-91 were over \$0.7 billion lower than in 1989-90. This was largely due to the transitional impact of personal income tax reform. Although most of the personal income tax reform measures became effective January 1, 1988, withholding tables were not adjusted until July 1, 1988, with the result that personal income tax refunds were substantially higher in 1989-90.

In contrast, corporate income tax revenues declined 9.9 per cent in 1990-91, as the recession had a pronounced effect on corporate profits. Rising unit labour costs, declining demand, and rising exchange rates reduced corporate profit margins to their lowest levels since the 1981-1982 recession. Corporate profits have declined steadily since the fourth quarter of 1988 and by the end of fiscal year 1990-91 were 65 per cent below their pre-recession peak. However, the decline in collections to date has been less than the cumulative decline in profits, owing to the impact of the base-broadening measures introduced as part of the 1988 Income Tax Reform and the introduction of the Large Corporations Tax.

Unemployment insurance contributions increased by 18.3 per cent in 1990-91, primarily reflecting increases in premium rates. Beginning in 1990, the financing provisions of the unemployment insurance program changed, whereby the full cost of the program is financed through employee-employer premiums. Previously, the federal government financed certain components of the program. As a result, premium rates were increased, effective January 1, 1990, which accounts for most of the year-over-year advance in unemployment insurance contributions.

Sales and excise taxes and duties, which include the federal manufacturers' sales tax (FST), customs import duties, and excise taxes, declined by 16.3 per cent on a year-over-year basis. This decline is largely attributable to the replacement of the FST by the Goods and Services Tax (GST), effective January 1, 1991. In addition, the impact of the recession on consumer demand and the phase-out of tariffs under the Canada-United States Free Trade Agreement also contributed to lower revenues in this component.

Net GST revenues in 1990-91 amounted to \$2.6 billion. The net GST revenues collected in 1990-91 were higher than estimated in the February 1991 budget. However, the higher-than-estimated revenues appear to relate to the timing of receipts, rather than to any underestimation of the GST tax base. For a more detailed assessment of GST revenue collections to date, please see the section entitled *Assessment of GST Revenue Collections* in this publication.

Other revenues include non-resident tax, other tax revenue, and non-tax revenue. Most of the increase in 1990-91 was due to higher earnings from the activities of the Exchange Fund Account.

The preliminary outcome for total budgetary revenues was \$1.4 billion lower than forecast in the February 1991 budget. Among the various components, personal income tax revenues were \$1.5 billion lower than expected, due to higher-than-expected refunds and the impact of the recession on personal incomes. GST revenues were up \$0.8 billion, but this was more than offset by lower sales and excise tax revenues, down \$1.4 billion. Corporate income tax revenues were up \$0.3 billion while other revenues were \$0.4 billion higher.

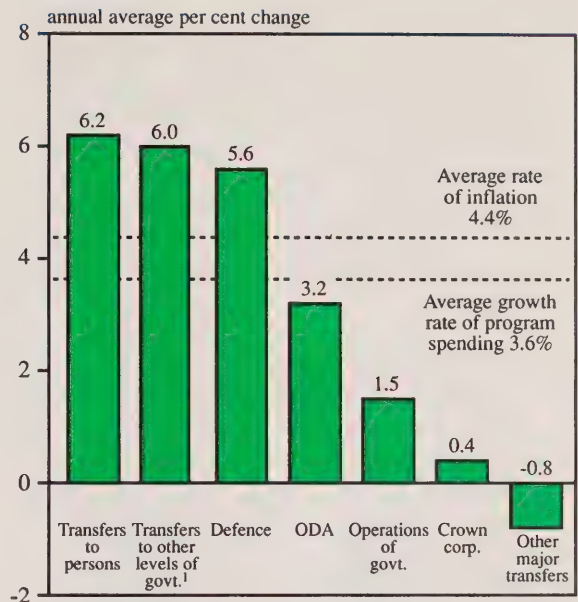
Budgetary Expenditures

Budgetary expenditures were up 5.1 per cent, on a year-over-year basis. Public debt charges, the largest single component of budgetary expenditures, advanced by 9.6 per cent. Program spending – that is total budgetary expenditure excluding public debt charges – was up only 3.4 per cent. The increase in public debt charges reflects the compounding effect of the high interest rates in the first half of 1990, coupled with the increase in the stock of debt.

Program spending advanced by 3.4 per cent in 1990-91, well below the rate of inflation of 4.8 per cent, and slightly less than the average growth in program spending since 1984-85. Program spending growth since 1984-85 has increased at an annual average rate of only 3.6 per cent. The increase in program spending in 1990-91 is largely attributable to the impact of the recession on the cyclically sensitive components of spending, such as unemployment insurance benefits. However, the impact of these components was largely offset by expenditure reduction initiatives introduced in previous budgets.

Chart 4

Growth in program spending 1984-85 to 1990-91



¹Includes cash and tax transfers.

Table 4

Budgetary Expenditures

				Year-over-year change		Annual average 1984-85 to 1990-91
	1984-85	1989-90	1990-91	1989-90	1990-91	
	(millions of dollars)			(per cent)		
1. Major transfers to persons of which:	25,115	32,169	36,083	6.5	12.2	6.2
Old age security benefits	11,418	16,154	17,131	6.3	6.0	7.0
Unemployment insurance program payments	10,052	11,694	14,665	6.6	25.4	6.5
Family allowances	2,418	2,653	2,736	1.8	3.1	2.1
2. Major transfers to other levels of government of which: ⁽¹⁾	18,826	23,688	23,229	5.6	-1.9	3.6
Established Programs Financing	8,595	8,829	7,894	-0.9	-10.6	-1.4
Fiscal transfers	6,486	9,853	9,545	9.7	-3.1	6.7
Canada Assistance Plan	3,745	5,006	5,788	9.9	15.6	7.5
3. Other major transfers	10,740	11,150	10,253	-4.9	-8.0	-0.8
to business	4,703	2,934	2,741	-8.1	-6.6	-8.6
to other groups	6,037	8,216	7,512	-3.7	-8.6	3.7
4. Crown corporations	4,797	5,227	4,919	-9.6	-5.9	0.4
5. Defence	8,762	11,450	12,122	3.9	5.9	5.6
6. Official Development Assistance ⁽²⁾	2,089	2,575	2,519	-6.7	-2.2	3.2
7. Other government operations	16,784	17,624	18,309	10.6	3.9	1.5
8. Total program expenditures	87,113	103,883	107,434	4.0	3.4	3.6
9. Public debt charges	22,455	38,820	42,537	17.0	9.6	11.2
10. Total budgetary expenditures	109,568	142,703	149,971	7.3	5.1	5.4

⁽¹⁾ Cash portion only. Total EPF cash and tax transfers were up 1.7 per cent in 1990-91 and an average 6.0 per cent a year in the six years ending 1990-91.

⁽²⁾ Budgetary cash portion only.

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The largest component of program spending – transfers to persons – advanced by 12.2 per cent in 1990-91, primarily attributable to the surge in unemployment insurance benefits as a result of the recession. Unemployment insurance benefits were up 25.4 per cent, with about two-thirds of the increase attributable to advances in the number of beneficiaries, primarily in Ontario, and the remainder due to increases in the average weekly benefit rate. Among the other programs within major transfers to persons, elderly benefit payments were up 6.0 per cent, reflecting increases in both average benefits, which are indexed to quarterly changes in the consumer price index, and the eligible population base.

Direct cash transfers to other levels of government declined between 1989-90 and 1990-91 as increases in Canada Assistance Plan transfers were offset by lower direct cash transfers under both the Established Programs Financing (EPF) and equalization programs. Under the Canada Assistance Plan, the federal government provides funds to provinces and territories to help them pay for certain social assistance benefits and services. Prior-year adjustments, especially to Ontario, as well as increased caseloads due to the economic environment, have resulted in these transfers increasing by 15.6 per cent in 1990-91. Although the February 1990 budget capped the growth in these transfers to Ontario, Alberta, and British Columbia at 5 per cent in 1990-91, the federal government did not enforce the cap until the Supreme Court had ruled on the provincial challenge to this measure. Cash transfers under Established Programs Financing (EPF) declined, due to the Expenditure Control Plan announced in the February 1990 budget, which held per capita EPF transfers constant at the 1989-90 levels. As a result, total EPF entitlements increased by only 1.7 per cent in 1990-91. EPF entitlements are paid in the form of tax point transfers and cash and as the value of tax transfers is unaffected by this measure, this restraint initiative impacts only on cash transfers and accounts for the 10.6 per cent decline in cash transfers. Fiscal transfers, consisting primarily of equalization transfers to lower-income provinces, also declined in 1990-91. However, the decline resulted from the inclusion of large one-time payments in 1989-90 relating to underpayments in previous years, as overall entitlements under this program were up 4.6 per cent in 1990-91.

The decline in other major transfer payments of 8 per cent reflected lower grants and contributions to both business and to other groups. The decline in business transfers was largely concentrated in regional

development transfers reflecting a lower take-up due to the recession. Lower agricultural transfers, due to the timing of payments as well as the impact of new cost-sharing programs with the provinces, accounted for most of the decline in transfers to other groups. In contrast, grants and contributions to Indian and Inuit programs were up substantially. The decline in transfers to major Crown corporations was largely attributable to lower subsidy payments to VIA Rail and Canada Post Corporation, reflecting the impact of past restraint measures.

The increase in defence spending reflects the formula-funded nature of this program and incremental funding was provided to defence to cover costs associated with activities related to the hostilities in the Gulf. Assistance to developing countries under Official Development Assistance declined on a year-over-year basis. Spending on other government operations was up 3.9 per cent in 1990-91. Growth in this component remained restrained in 1990-91 due to the ongoing restraint measures introduced in past budgets and specific reduction initiatives undertaken in 1990-91 to fund the incremental costs associated with the Gulf hostilities. In addition, adjustments to the allowance for the actuarial liability for employee pensions, due to both the revisions in economic assumptions and the wage strategy announced in the February 1991 budget, also impacted on the growth in this component.

Total budgetary expenditures for 1990-91 were \$1.3 billion lower than estimated in the February 1991 budget. Public debt charges were \$0.4 billion lower due to the impact of lower-than-expected interest rates. Program spending was down \$0.9 billion, reflecting lower-than-expected take-up in a number of programs and lower requirements related to pension actuarial liabilities.

Financial Requirements

The government's net financial requirements reflect not only the difference between budgetary revenues and expenditures, but also the net source of funds generated by non-budgetary and foreign exchange transactions. Non-budgetary transactions in 1990-91 amounted to \$6.1 billion, down \$2.4 billion from 1989-90. The lower source of funds in 1990-91 was due to declines in accounts receivable and the allowance for pension liabilities. Financial requirements, excluding foreign exchange transactions, therefore, amounted to \$24.5 billion, up \$4.0 billion from the 1989-90

requirement, but only \$0.7 billion higher than estimated in the February 1991 budget. As a percentage of GDP, financial requirements, excluding foreign exchange transactions, were 3.7 per cent in 1990-91.

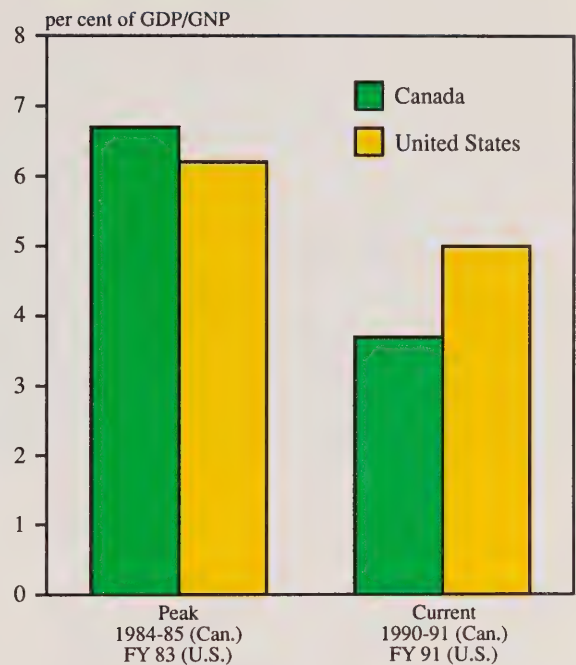
For international comparisons, it is this measure of the Government of Canada's fiscal situation that corresponds most closely to the budget measure in the United States. On this basis, financial requirements in Canada, relative to the size of the economy, have declined from a peak of 6.7 per cent in 1984-85 (fiscal year ending March 31) to 3.7 per cent in 1990-91. In the United States, the unified budget deficit is projected, by the U.S. Office of Management and Budget, to have declined from the peak of 6.2 per cent in their fiscal year 1982-83 (fiscal year ending September 30) to 5 per cent in their fiscal year 1990-91. On this comparable basis, the fiscal position in Canada is not only lower than that in the United States but has made more improvement and over a shorter time span.

Foreign exchange transactions resulted in a net requirement of \$4.9 billion, up \$4.2 billion from 1989-90. Foreign exchange transactions are primarily directed towards promoting orderly conditions in the Canadian dollar exchange market. As a result, total financial requirements amounted to \$29.4 billion, up \$8.2 billion from the 1989-90 requirement. Unmatured debt transactions amounted to \$30.5 billion in 1990-91, primarily in the form of Treasury bills and marketable

bonds. Cash balances at March 31, 1991 stood at \$2.6 billion, up \$1.1 billion from March 31, 1990.

Chart 5

Canada-U.S. comparison Financial requirements versus unified budget deficits



Sources: Department of Finance, U.S. Office of Management and Budget.

Assessment of GST Revenue Collections

There has been considerable debate and commentary about the flow of GST revenues collected to date. This is attributable largely to the extreme variability of the monthly data and the fact that GST revenues for the first three months of implementation were higher than forecast in the February 1991 budget.

Table 5 shows GST collections for the period up to and including July 1991.

Net GST revenues are reported at \$7.0 billion for the January 1991 to July 1991 period (Table 5, line 3). With a one-month collections lag with the start-up of the GST in January, this is effectively six months of GST revenue accruals or \$1.2 billion per month. A simple extrapolation of six months of average monthly net

Table 5

GST: Comparison of Collection Experience to February 1991 Budget Projection

		(millions of dollars)
A. Net collections to date		
1.	Fiscal year 1990-91	2,574
2.	April 1991 to July 1991	4,429
3.	Net collections to date	7,003
Plus:		
4.	Small business transitional credit	700
5.	Low-income GST credit	1,632
6.	Gross collections to date	9,336
B. February 1991 budget projections – 1991-92		
7.	Net GST revenues	16,350
Plus:		
8.	Small business transitional credit	900
9.	Low-income credit	2,400
10.	Gross GST revenues	19,650

collections of \$1.2 billion, would be \$14 billion of net GST revenues on a full year basis. Such an extrapolation, however, is extremely misleading. Before the net collections data over the January-to-July period can be compared to the February 1991 budget forecast of \$16.4 billion for the 1991-92 fiscal year as a whole, a number of key factors, both transitional and other, must be taken into consideration:

- In order to assist small business, a one-time transitional credit has been available, which is netted against GST remittances otherwise payable. The total cost of this transitional credit is estimated at \$0.9 billion, of which about \$0.7 billion has been paid to the end of July. As a result, the payment of the small business transitional credit has had a significant impact on the reported results to date but given that only \$0.2 billion remains to be paid, this credit is not expected to have a major impact on collections over the remaining months of the year.
- To ensure that lower-and modest-income Canadians would not be adversely affected by the price impacts of the GST, the FST credit was replaced by an enhanced GST credit. The GST credit is paid in four instalments during the fiscal year (April, July, October and January). In 1990-91, there was a prepayment of the credit in December 1990. As a result, the collections to date incorporate the impact of three (instead of two) low-income GST credit payments, amounting to \$1.6 billion.

Adjusting for these two factors results in gross collections to date of \$9.3 billion, (Table 5, line 6), or about \$18 1/2 to \$19 billion for the year as a whole. This compares to the February 1991 budget forecast gross GST revenues of \$19.7 billion (Table 5, line 10). However, there are several other factors, particularly seasonal and economic, which will also possibly impact on the final outcome for the year as a whole.

- The consumption of goods and services, subject to the GST, varies from month to month and from season to season and, as a result, collections will vary during the course of the year. Sales of taxable goods and services should be the lowest in the first quarter and highest in the final quarter of the calendar year, given seasonal patterns.
- It is expected that the recession dampened collections in the first quarter of 1991. However, with the recovery that occurred in the second quarter of 1991, collections should begin to strengthen over the course of the year.

Therefore, on the basis of collections data for the first seven months of the calendar year and given the volatility in such data, there is no evidence to suggest changes would be in order to the February 1991 budget forecast of GST revenue for 1991-92. Reported GST revenues to date appear consistent with the February 1991 budget projection for a complete fiscal year.

The information in this Monitor is based on preliminary financial results for 1990-91. For further information contact: P. DeVries at 996-7397. Cet imprimé est également offert en français.



he Fiscal Monitor

A Publication of the Department of Finance

November 1991

Highlights of Financial Results for April 1991 to September 1991

- In the first six months of fiscal year 1991-92 (April to September), the federal deficit, on a public accounts basis, amounted to \$18.0 billion, \$7.4 billion higher than that recorded in the corresponding period of 1990-91.
- On a quarterly basis, the deficit in the second quarter of 1991-92 was up \$1.7 billion over the comparable period last year. In the first quarter of 1991-92, the deficit was up \$5.7 billion over the first quarter of 1990-91.
- An increase in the deficit in the first six months of 1991-92 was expected in the February 1991 fiscal forecast, reflecting both the transitional costs associated with the introduction of the Goods and Services Tax and impact of the recession on revenues and expenditures.

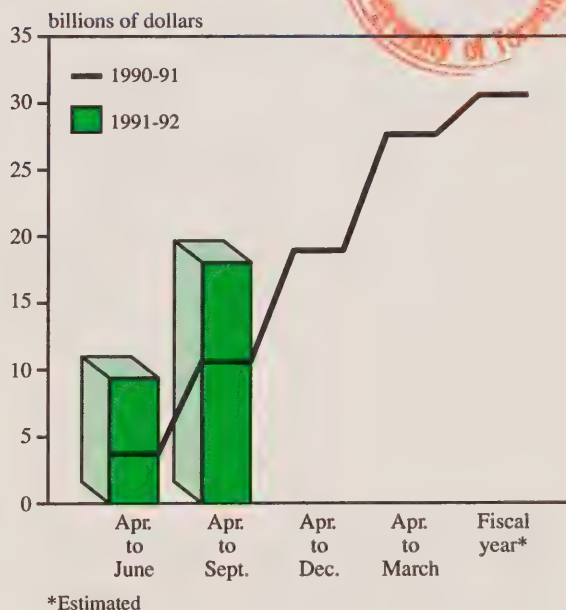
Summary

In the first six months of fiscal year 1991-92 (April to September), the budgetary deficit was \$18.0 billion, \$7.4 billion higher than that recorded in the corresponding period of 1990-91. Most of the deterioration in the deficit to date occurred in the first quarter of 1991-92. In the first quarter, the deficit was \$5.7 billion higher than that recorded in the same period of 1990-91. In the second quarter of 1991-92 (July to September), the deficit was only \$1.7 billion higher, while in September 1991, the deficit was \$0.3 billion lower than in September 1990.

The deterioration in the deficit in the first six months of 1991-92, on a year-over-year basis, largely resulted from the lagged effects of the recession on both budgetary revenues and program spending, as well as the transitional costs associated with replacing the federal manufacturers' sales tax (FST) by the Goods and Services Tax (GST) and the timing of receipts

The federal deficit 1990-91 and 1991-92

Year to date



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Table 1

Summary Statement of Transactions

	April to September			
	1988-89	1989-90	1990-91	1991-92
	(millions of dollars)			
A. Budgetary transactions:				
1. Revenues	48,328	51,812	60,000	56,321
2. Program spending	-43,870	-46,252	-49,151	-53,565
3. Operating surplus	4,458	5,560	10,849	2,756
4. Public debt charges	-15,680	-19,137	-21,451	-20,757
5. Deficit	-11,222	-13,577	-10,602	-18,001
B. Non-budgetary transactions: net source(+)/requirement(-)	3,124	2,318	2,041	-774
C. Financial requirements (excluding foreign exchange transactions)	-8,098	-11,259	-8,561	-18,775
D. Foreign exchange transactions: net source(+)/requirement(-)	-3,347	-1,548	-4,336	230
E. Total financial requirements	-11,445	-12,807	-12,897	-18,545
F. Unmatured debt transactions	12,266	11,996	12,886	18,422
G. Cash balance at end of period	2,354	1,021	1,499	2,448

and payments. Dampening the overall impact of these factors on the deficit was a decline in public debt charges, reflecting the sharp drop in interest rates since May 1990, which continued into the second half of the 1991-92 fiscal year.

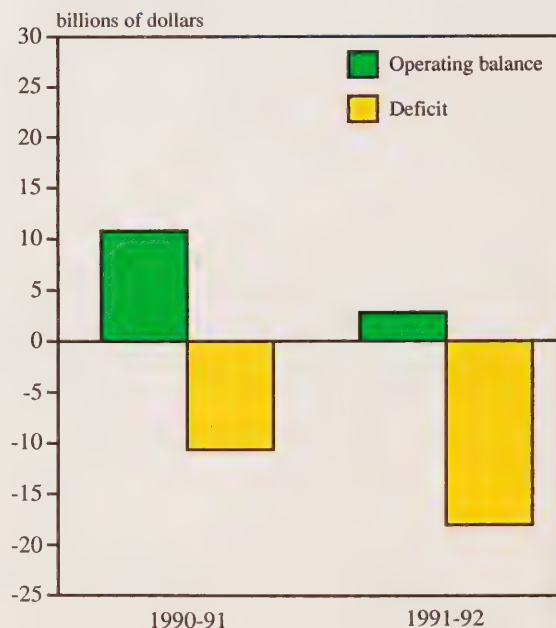
The February 1991 budget deficit forecast of \$30.5 billion for 1991-92 was based on the assumption that the deficit would be higher in the first half of the fiscal year relative to the same period in 1990-91. However, the deficit is expected to improve substantially over the remainder of the year, reflecting continued improvement in the economy, the ending of the transitional costs associated with sales tax reform, the effects of the lower interest rates on public debt charges, and the impact of the fiscal measures announced in the February 1991 budget. The monthly profile of the financial results is consistent with the February 1991 budget forecast.

Although the deficit outlook for 1991-92 appears to be on track, there are some differences among the major components. Both personal and corporate income tax collections are lower than forecast in the February 1991 budget, while unemployment insurance benefit payments are somewhat higher than expected. However, the impact of these developments is expected to be

offset by lower public debt charges, reflecting the sharper-than-forecast decline in interest rates to date.

The deficit and the operating balance: 1990-91 and 1991-92

April to September
Year over year



Financial requirements, excluding foreign exchange transactions, amounted to \$18.8 billion in the first six months of 1991-92, \$10.2 billion higher than that recorded in the first six months of 1990-91. Foreign exchange transactions in the first six months of 1991-92 resulted in a net source of funds amounting to \$0.2 billion, compared to a net requirement of \$4.3 billion in the same period last year. As a result, total financial requirements, including foreign exchange transactions, were \$18.5 billion for the first six months of 1991-92, up \$5.6 billion from the requirements in the first six months of 1990-91.

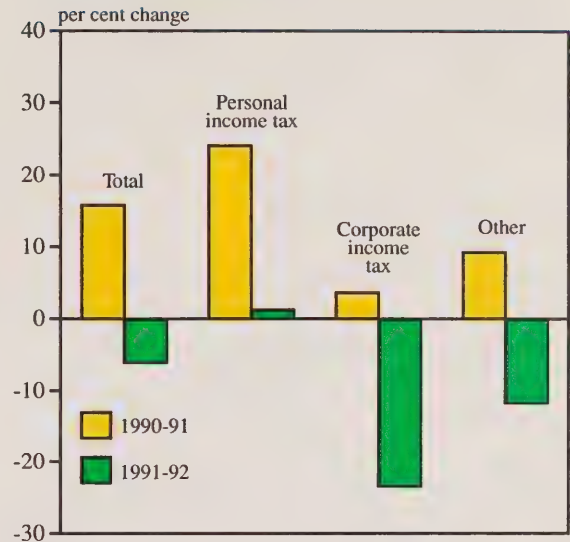
Budgetary Revenues

During the first six months of 1991-92, budgetary revenues declined 6.1 per cent on a year-over-year basis. The decline reflects both the impact of the recession and the transitional costs associated with replacing the FST with the GST, as well as the timing of receipts. As expected in the February 1991 budget projections, the recession has had a pronounced effect on corporate profits and has also dampened the growth in personal incomes.

In the first half of 1991, corporate profits were 60 per cent below their pre-recession peak and 41 per cent below the same period in 1990. The decline in corporate profits has also resulted in higher refunds, as these losses are being applied against taxes paid in the past. As a result, corporate income tax collections declined 23.0 per cent in the first six months of 1991-92 from the same period last year. The decline in collections is less than the decline in profits owing

Budgetary revenues: 1990-91 and 1991-92

April to September
Year-over-year growth



to the impact of the Large Corporations Tax and base-broadening measures introduced as part of the 1988 Income Tax Reform. The recession has also slowed the growth in personal incomes. Personal income tax collections were up only 1.0 per cent in the first six months of 1991-92.

The other major factor lowering budgetary revenues in the first six months of 1991-92 was the impact of the one-time transitional costs associated with the replacement of the FST by the GST. These include the repayment of the FST paid on new and unused inventories held at the end of 1990 and the transitional grant to small business.

Table 2

Budgetary Revenues

	April to September		Per cent change
	1990-91	1991-92	
	(millions of dollars)		(%)
1. Personal income tax	30,729	31,029	1.0
2. Corporate income tax	4,997	3,849	-23.0
3. Unemployment insurance contributions	6,295	7,322	16.3
4. Goods and Services Tax		7,348	
5. Sales and excise taxes/duties	13,944	3,825	-72.6
6. Other revenues	4,035	2,948	-26.9
7. Total budgetary revenues	60,000	56,321	-6.1

transfers to major Crown corporations primarily relates to higher payments to the Canada Mortgage and Housing Corporation. The increase in spending on other government operations reflects the timing of payments, as well as the controls on wage increases and operating costs which were announced in the February 1991 budget.

Financial Requirements

Non-budgetary transactions in the first six months of 1991-92 resulted in a net requirement of funds amounting to \$0.8 billion, compared to a net source of \$2.0 billion recorded in the corresponding period of 1990-91. Part of this turnaround relates to the impact of the lower interest rates on the interest and debt accounts and to a loan to the Canada Deposit and Insurance Corporation to assist the corporation in advancing insurance funds to eligible depositors of the Standard Trust Company and Standard Loan Company. With a deficit of \$18.0 billion and a net requirement of funds from non-budgetary transactions of \$0.8 billion, financial requirements, excluding foreign exchange transactions, amounted to \$18.8 billion in the first six months of 1991-92, up \$10.2 billion from the requirements in 1990-91.

Foreign exchange transactions resulted in a net source of funds of \$0.2 billion, compared to a net requirement of \$4.3 billion in the first six months of 1990-91. Total financial requirements, therefore, amounted to \$18.5 billion in the first six months of 1991-92, up \$5.6 billion from the 1990-91 requirements. The 1991-92 requirement was financed through unmatured debt transactions of \$18.4 billion and a drawdown of \$0.1 billion in cash balances.

Debt Servicing and Reduction Account

The government has introduced legislation in the House of Commons to establish the Debt Servicing and Reduction Account. Upon Royal Assent to the legislation, all GST revenues net of the applicable rebates and credits, net proceeds from the sale of Crown corporations and gifts to the Crown identified for debt reduction will be credited to this Account. The revenues in this Account will be used only to pay interest on the public debt and, ultimately, the public debt. This Account, in conjunction with the proposed *Spending Control Act*, which was released in draft form by the Minister of Finance on July 12, 1991, will ensure that GST revenues will not be used to fund new program spending.

As noted above, net GST collections amounted to \$7.3 billion. These revenues will be deposited in the Debt Servicing and Reduction Account, once the applicable legislation receives Royal Assent.

The information in this Monitor is based on financial results for the six months ended September 30, 1991. For further information contact: P. DeVries at 996-7397. Cet imprimé est également offert en français.



Table 3

Budgetary Expenditures

	April to September		Per cent change
	1990-91	1991-92	
	(millions of dollars)		(%)
1. Major transfers to persons: of which	16,616	19,784	19.1
Unemployment insurance program payments	6,198	8,647	39.5
Old age security benefits	8,409	9,046	7.6
Family allowances	1,355	1,425	5.2
2. Major transfers to other levels of government: of which	11,696	12,482	6.7
Established Programs Financing ⁽¹⁾	3,975	3,775	-5.0
Fiscal transfers	4,825	5,165	7.0
Canada Assistance Plan	2,895	3,542	22.3
3. Other major transfers	4,036	3,946	-2.2
4. Major payments to Crown corporations	2,052	2,123	3.5
5. Defence	5,144	5,033	-2.2
6. Official Development Assistance ⁽²⁾	825	957	16.0
7. Operations of government	8,782	9,240	5.2
8. Total program expenditures	49,151	53,565	9.0
9. Public debt charges	21,451	20,757	-3.2
10. Total budgetary expenditures	70,602	74,322	5.3

⁽¹⁾ Cash portion only. Total EPF cash and tax transfers are up 1.1 per cent in 1991-92.

⁽²⁾ Budgetary cash portion only.

Program spending advanced by 9.0 per cent in the first six months of 1991-92, compared to the same period in 1990-91. Most of the year-over-year increase reflects the impact of the recession on the cyclically sensitive components of spending (unemployment insurance benefit payments and Canada Assistance Plan transfers) and the timing of payments.

More than half of the increase in program spending of \$4.4 billion was due to a \$2.4 billion increase in unemployment insurance benefit payments. As noted in the February 1991 budget, the recession was expected to result in a surge in unemployment insurance benefits – in fact, the number of beneficiaries was up 26.9 per cent over the corresponding level of 1990. In addition, average benefits are higher given the composition of the unemployed. With the beginning of the recovery, the growth in unemployment insurance benefits should begin to moderate over the course of the fiscal year. The recession was also largely responsible for an increase in Canada Assistance Plan transfers to the provinces. Although growth in such transfers to Ontario, Alberta, and British Columbia was capped in the February 1990

budget to increase by no more than 5 per cent in 1991-92, the impact of this measure will not be felt until later in the fiscal year.

Among the other elements of program spending, the increase in elderly benefits reflected increases in both average benefits, which are indexed to quarterly changes in the consumer price index, and the eligible population base. The decline in Established Programs Financing (EPF) cash transfers reflects the impact of the February 1990 budget measure which limited the overall increase in EPF entitlements in 1991-92 to reflect changes in population only, implying a growth of about 1 per cent. EPF entitlements are paid in the form of tax point transfers and cash. As the value of tax transfers is unaffected by this measure, this restraint initiative impacts only on cash transfers, which declined by 5.0 per cent. The growth in fiscal transfers, consisting primarily of equalization transfers to lower-income provinces, reflects the impact of prior-year adjustment payments.

The decline in other major transfers reflects in part the timing of payments, while the increase in

In addition, with sales tax reform, the refundable federal sales tax credit (FST credit) to low-income Canadians, which was paid at the time of tax filing, was replaced by the enhanced low-income GST credit, which is paid quarterly. The results for the first six months of 1991-92 are affected, not only by the payment of the quarterly GST low-income credit, but also by the payment of the refundable FST credit with respect to the 1990 taxation year.

Net GST collections in the six months of 1991-92, which amounted to \$7.3 billion, were affected by the payment of the small business transitional grant and timing factors. In order to assist small business, a one-time transitional credit is available, which is netted against GST remittances otherwise payable. The cost of this transitional credit is estimated at \$0.9 billion in 1991-92, with most of it being paid in the first few months of 1991-92. As the credit is netted against remittances, reported collections will be correspondingly lower.

Unemployment insurance contributions increased by 16.3 per cent on a year-over-year basis. This increase is attributable to the increase in maximum insurable earnings, effective January 1991, which is the base for the calculation of unemployment insurance contributions, and the increase in premium rates, effective July 1, 1991.

Other revenues, consisting primarily of return on investments, other non-tax revenues, and non-resident taxes declined by 26.9 per cent. This decline reflects, in part, the acceleration of Bank of Canada profits remittances as announced in the February 1990 budget which resulted in a one-time fiscal saving in 1990-91, as well as the impact of lower interest rates on the interest sensitive components of return on investments.

Most of the year-over-year decline in budgetary revenues was concentrated in the first quarter of 1991-92. Revenues in that period were 10.1 per cent below the last year's level. In the second quarter of 1991-92, revenues were only 1.2 per cent below the same period in 1990-91. Over the remaining quarters of 1991-92, budgetary revenues should continue to improve, given the

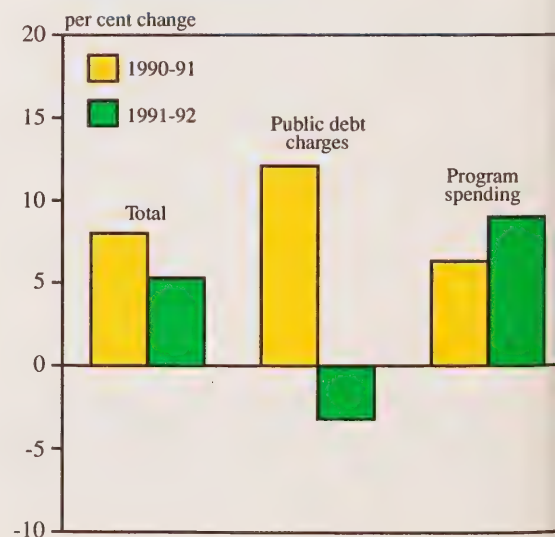
ending of the transitional costs of sales tax reform, the continued improvement in the economy, and the impact of the February 1991 budget measures. However, it appears that budgetary revenues, especially personal and corporate income tax collections, will be less than forecast in the February 1991 budget. The impact of this shortfall on the deficit, however, is expected to be largely offset by lower-than-expected public debt charges.

Budgetary Expenditures

In the first six months of 1991-92, budgetary expenditures were up 5.3 per cent on a year-over-year basis. Public debt charges, the largest single component of budgetary expenditures, declined by 3.2 per cent. The decline in public debt charges reflects the impact of the decline in interest rates, especially short-term rates, which by the end of September 1991 were more than 550 basis points below May 1990 levels. The decline in interest rates has been greater than forecast in the February 1991 budget, with the result that public debt charges for the year as a whole will likely be lower than forecast in the budget.

Budgetary expenditures: 1990-91 and 1991-92

April to September
Year-over-year growth



The Fiscal Monitor

A Publication of the Department of Finance

March 1992

Highlights of Financial Results for April 1991 to December 1991

- In the first nine months of fiscal year 1991-92 (April to December), the federal deficit, on a public accounts basis, amounted to \$26.8 billion.
- These results were incorporated into the February 1992 budget deficit estimate of \$31.4 billion, which is up \$0.9 billion from that estimated for 1991-92 in the February 1991 budget, as weaker growth in revenues more than offset lower spending.
- On a year-over-year basis, the deficit in the first nine months of 1991-92 was up \$8.0 billion, with most of the increase occurring in the first quarter of 1991-92, which was up \$5.7 billion over the same period in 1990-91. In contrast, on a quarterly basis, the deficit was up \$1.7 billion in the second quarter and \$0.5 billion in the third quarter over the comparable periods last year.

Summary

In the first nine months of fiscal year 1991-92 (April to December), the budgetary deficit was \$26.8 billion. These results were incorporated in the deficit estimate for 1991-92 of \$31.4 billion, presented in the February 1992 budget. This implies an increase in the deficit of \$4.6 billion over the remaining months of 1991-92 and the supplementary period, which is significantly less than that recorded in the corresponding period of 1990-91. The reasons for the relative improvement in the deficit over the rest of the current fiscal year vis-à-vis last year are:

- the ending of GST transitional costs;
- the impact of the decline in interest rates on public debt charges;
- the impact of the February 1990 and February 1991 budget measures, along with the actions taken throughout 1991-92 to control the pressures in the deficit; and,
- the impact of the proposed pension legislation to put public service pension plans on a fully funded basis.

The deficit in the first nine months of 1991-92 was \$8.0 billion higher than that recorded in the corresponding period of 1990-91. Most of the deterioration in the deficit to date occurred in the first quarter of 1991-92 (April to June), as the deficit was \$5.7 billion higher than recorded in the same period of 1990-91. In the second quarter of 1991-92 (July to September), the deficit was \$1.7 billion higher, while in the third quarter of 1991-92 (October to December), the deficit was up \$0.5 billion on a year-over-year basis.

The February 1991 budget deficit forecast of \$30.5 billion for 1991-92 was based on the assumption that the deficit would be higher in the first half of the fiscal year relative to the same period in 1990-91, due to the lagged effects of the recession on both budgetary revenues and program spending, as well as the

The federal deficit 1990-91 and 1991-92

Year to date

billions of dollars

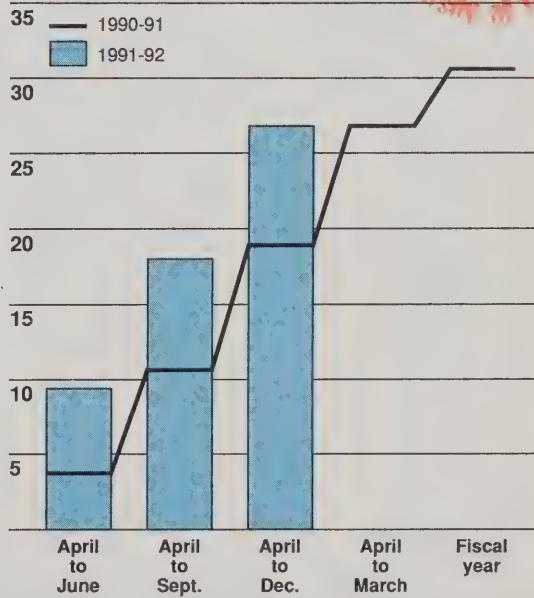


Table 1

Summary Statement of Transactions

	April to December			
	1988-89	1989-90	1990-91	1991-92
	(millions of dollars)			
A. Budgetary transactions				
1. Revenues	73,878	81,077	88,831	86,010
2. Program spending	-67,279	-70,672	-75,638	-81,573
3. Operating surplus	6,599	10,405	13,193	4,437
4. Public debt charges	-24,314	-29,177	-32,070	-31,265
5. Deficit	-17,715	-18,772	-18,877	-26,828
B. Non-budgetary transactions	-1,686	-314	-716	-1,851
C. Financial requirements (excluding foreign exchange transactions)	-19,401	-19,086	-19,593	-28,679
D. Foreign exchange transactions: net source(+) / requirement(-)	-2,564	30	439	4,651
E. Total financial requirements	21,965	-19,056	-19,154	-24,028
F. Unmatured debt transactions	23,590	19,979	21,973	24,718
G. Cash balance at end of period	3,158	2,757	4,329	3,260

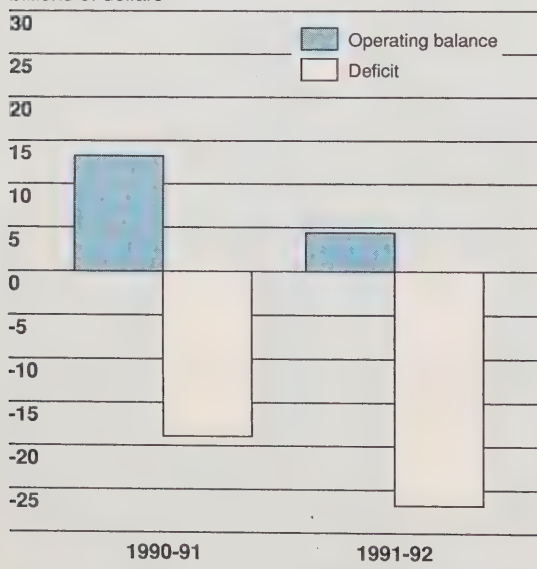
transitional costs associated with replacing the federal manufacturers' sales tax (FST) by the Goods and Services Tax (GST). Developments over this period have generally followed these expectations.

However, in the February 1991 budget, the deficit was expected to improve substantially over the remainder of the year, reflecting economic recovery, the ending of the transitional costs associated with sales tax reform, the effects of the lower interest rates on public debt charges, and the impact of the fiscal measures announced in the February 1991 budget. In this regard, the results for the third quarter of this fiscal year were disappointing, reflecting the impact of the slower economic growth abroad, especially in the United States, on Canadian economic performance in the fourth quarter of 1991. A number of internal actions have been taken to modify the impact of these factors on the deficit. These include the year-end freeze on discretionary spending and hiring, the scooping of available reserves, and the reprofiling of certain grants, contributions, and capital expenditures to future years. As a result, the deficit forecast for 1991-92 has been held to \$31.4 billion.

The deficit and the operating balance: 1990-91 and 1991-92

April to December
Year-over-year growth

billions of dollars



Financial requirements, excluding foreign exchange transactions, amounted to \$28.7 billion in the first nine months of 1991-92, \$9.1 billion higher than recorded in the first nine months of 1990-91. Financial requirements, excluding foreign exchange transactions, for the fiscal year as a whole are now expected to be \$27.5 billion, as a slight source of funds is expected over the remaining months of 1991-92. Foreign exchange transactions in the first nine months of 1991-92 resulted in a net source of funds amounting to \$4.7 billion, compared to a net source of \$0.4 billion in the same period last year. As a result, total financial requirements, including foreign exchange transactions, were \$24.0 billion for the first nine months of 1991-92, up \$4.9 billion from the requirements in the first nine months of 1990-91.

Table 2

Budgetary Revenues

	April to December		
	1990-91	1991-92	Per cent change
	(millions of dollars)		(%)
1. Personal income tax	45,306	45,980	1.5
2. Corporate income tax	7,224	5,705	-21.0
3. Unemployment insurance contributions	9,492	11,525	21.4
4. Goods and Services Tax	-580	11,190	
5. Sales and excise taxes/duties	21,076	6,898	-67.3
6. Other revenues	6,313	4,712	-25.4
7. Total budgetary revenues	88,831	86,010	-3.2

Budgetary Revenues

During the first nine months of 1991-92, budgetary revenues declined 3.2 per cent on a year-over-year basis. The decline reflects both the impact of the recession and the transitional costs associated with replacing the FST with the GST. The recession has had a pronounced effect on corporate profits and has also dampened the growth in personal incomes.

Corporate profits, in the January 1991 to December 1991 period, were 32 per cent below the level recorded in the same period in 1990. The decline in corporate profits has also resulted in higher refunds, as some losses are being applied against taxes paid in the past. As a result, corporate income tax collections declined 21.0 per cent in the first nine months of 1991-92 from the same period last year. The decline in collections is less than the decline in profits owing to the impact of the Large Corporations Tax and base-broadening measures introduced as part of the 1988 Income Tax Reform. Personal income tax collections were up only 1.5 per cent in the first nine months of 1991-92, reflecting the weakness in personal incomes.

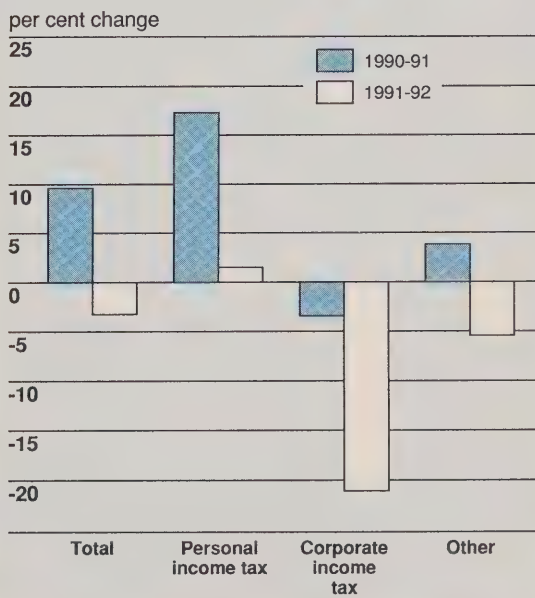
The other major factor lowering budgetary revenues in the first nine months of 1991-92 was the impact of the transitional costs associated with the replacement of the FST by the GST. Total indirect tax revenues in the first nine months of 1991-92 amounted to \$18.1 billion, down \$2.4 billion from the same period in 1990-91. This decline is largely attributable to the repayment of FST paid on new and unused inventories held at the end of 1990, the transitional grant paid to small business, and the quarterly payment of the low-income GST credit. With sales tax reform, the refundable federal sales tax credit (FST credit) to low-income Canadians, which was paid at the time of tax filing, was replaced by the enhanced low-income GST credit, which is paid quarterly. This credit is netted against gross GST revenues, whereas the refundable FST credit was netted against personal income tax revenues. The results for the first nine months of 1991-92 include, not only the payment of the quarterly GST low-income credit, but also the payment of the refundable FST credit with respect to the 1990 taxation year.

Unemployment insurance contributions increased by 21.4 per cent on a year-over-year basis. This increase is attributable to the increase in maximum insurable earnings, effective January 1991, which is the base for the calculation of unemployment insurance contributions, and the increase in premium rates, effective July 1, 1991.

Other revenues, consisting primarily of return on investments, other non-tax revenues, and non-resident taxes, declined by 25.4 per cent. This decline reflects, in part, the one-time impact on 1990-91 revenues of the acceleration of Bank of Canada profit remittances as announced in the February 1990 budget, as well as the

Budgetary revenues 1990-91 and 1991-92

April to December
Year-over-year growth



Financial Requirements

Non-budgetary transactions in the first nine months of 1991-92 resulted in a net requirement of funds amounting to \$1.9 billion, compared to a net requirement of \$0.7 billion recorded in the corresponding period of 1990-91. Part of the higher requirement relates to the impact of the lower interest rates on the interest and debt accounts and to a loan to the Canada Deposit Insurance Corporation to assist the corporation in advancing insurance funds to eligible depositors of the Standard Trust Company and Standard Loan Company. With a deficit of \$26.8 billion and a net requirement of funds from non-budgetary transactions of \$1.9 billion, financial requirements, excluding foreign exchange transactions, amounted to \$28.7 billion in the first nine months of 1991-92. Over the final quarter of 1991-92, a slight surplus is expected, given the seasonal pattern of financial requirements, and this will keep total requirements to the February 1992 budget estimate of \$27.5 billion.

Foreign exchange transactions resulted in a net source of funds of \$4.7 billion, compared to a net source of \$0.4 billion in the first nine months of 1990-91. Total financial requirements, therefore, amounted to \$24.0 billion in the first nine months of 1991-92, up \$4.9 billion from the 1990-91 requirements. The 1991-92 requirement was financed through unmatured debt transactions of \$24.7 billion and a drawdown of \$0.7 billion in cash balances.

GST Revenues and the Debt Servicing and Reduction Account

Net GST collections for the period April 1991 to December 1991 amounted to \$11.2 billion. Since its introduction on January 1, 1991, net GST collections are \$13.8 billion. Table 5 shows GST collections for the period up to and including December 1991. With a one-month lag in collections, associated with the start-up of the GST in January 1991, the results to date effectively relate to only eleven months of collections. Excluding the impact of the one-time transitional grant to small business and the quarterly credit to lower- and modest-income Canadians, gross GST collections over this period amounted to \$16.9 billion, or average collections of \$1.5 billion per month. A simple extrapolation of these results would yield gross collections of about \$18 1/2 billion for fiscal year 1991-92. Once certain factors, such as the seasonal pattern of consumption and the distribution of filers is taken into consideration, the collections to date continue to be in line with both the

Table 5

GST: Comparison of Collection Experience to February 1991 Budget Projection

(millions of dollars)

A. Net collections to date

1. Fiscal year 1990-91	2,574
2. April 1991 to December 1991	11,190
3. Net collections to date	13,764

Plus

4. Small business transitional grant	900
5. Low-income GST credit	2,247
6. Gross collections to date	16,911

B. February 1991 budget projection – 1991-92

7. Net GST revenues	16,350
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Plus

8. Small business transitional grant	900
9. Low-income GST credit	2,400
10. Gross GST revenues	19,650

February 1991 and February 1992 budget forecasts of \$19.7 billion for gross collections.

Part of the current weakness in economic activity stems from lower-than-expected business investment and exports which are not subject to the GST. In addition, while some components of the GST tax base are lower-than-expected in the February 1991 budget, others, such as expenditures on residential construction, are higher. As a result, the aggregate GST tax base for 1991-92 is little changed from that forecast in the February 1991 budget and reiterated in the February 1992 budget and hence collections continue to be on track.

In June 1991, the government introduced legislation in the House of Commons to establish the Debt Servicing and Reduction Account. Upon Royal Assent, all GST revenues net of the applicable rebates and credits, net proceeds from the sale of Crown corporations and gifts to the Crown identified for debt reduction will be credited to this Account. The revenues in this Account will be used only to pay interest on the public debt and, ultimately, the public debt. This Account, in conjunction with the proposed Spending Control Act, which was tabled in the House of Commons on February 14, 1992, will ensure that GST revenues will not be used to fund new program spending.

The information in this Monitor is based on preliminary financial statements for the first nine months of fiscal year 1991-92. For further information contact: P. DeVries at 996-7397. Cet imprimé est également offert en français.



impact of lower interest rates on the interest sensitive components of return on investments.

Most of the year-over-year decline in budgetary revenues was concentrated in the first quarter of 1991-92. Revenues in that period were 10.1 per cent below last year's level. In the second quarter of 1991-92, revenues were only 1.2 per cent below the same period in 1990-91. In the third quarter, revenues were up 3 per cent over the third quarter in 1990-91. Revenues are expected to continue to improve over the remainder of the fiscal year, given the ending of the transitional costs of sales tax reform, the impact of the February 1991 budget measures, and the January 1, 1992 increase in unemployment insurance premium contributions.

Budgetary Expenditures

In the first nine months of 1991-92, budgetary expenditures were up 4.8 per cent on a year-over-year basis. Public debt charges, the largest single component of budgetary expenditures, declined by 2.5 per cent.

The decline in public debt charges reflects the impact of lower interest rates, especially short-term rates. Short-term interest rates in 1991 averaged 8.9 per cent –

60 basis points lower than the February 1991 budget forecast of 9.5 per cent. Most of this decline in rates occurred in the second half of 1991 and was most pronounced in the final quarter of the year.

Program spending advanced by 7.8 per cent in the first nine months of 1991-92, compared to the same period in 1990-91. Most of the year-over-year increase reflects the impact of the recession on the cyclically-sensitive components of spending (unemployment insurance benefit payments and Canada Assistance Plan transfers) and the timing of payments.

More than half of the increase in program spending of \$5.9 billion was due to a \$3.1 billion increase in unemployment insurance benefit payments. The recession resulted in a surge in unemployment insurance benefits – in fact, the number of beneficiaries was up 26.9 per cent over the year earlier level. In addition, average benefits are higher given the composition of the unemployed. The recession was also largely responsible for an increase in Canada Assistance Plan transfers to the provinces. Although growth in such transfers to Ontario, Alberta, and British Columbia were capped in the February 1990 budget to increase by no more than 5 per cent in 1991-92, the impact of this measure will not be felt until later in the fiscal year.

Table 3

Budgetary Expenditures

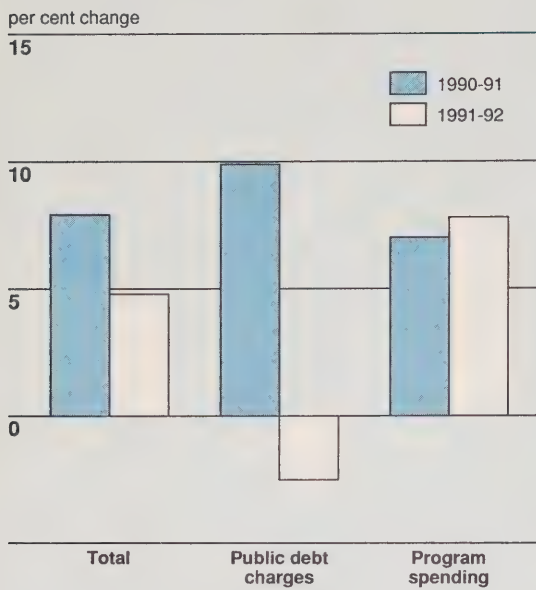
	April to December		Per cent change
	1990-91	1991-92	
	(millions of dollars)		(%)
A. Major transfers to persons, of which:	26,332	30,737	16.7
Unemployment insurance program payments	9,551	12,666	32.6
Old age security benefits	12,708	13,700	7.8
Family allowances	2,066	2,097	1.5
B. Major transfers to other levels of government, of which:	19,158	19,804	3.4
Established Programs Financing ⁽¹⁾	6,025	5,802	-3.7
Fiscal transfers	7,447	7,561	1.5
Canada Assistance Plan	4,249	5,033	18.5
C. Major subsidies and other transfers, of which:	6,141	6,506	5.9
Agricultural subsidies	1,299	1,379	6.2
Indian and Inuit programs	1,740	1,994	14.6
Regional / industrial development	472	420	-11.0
Science and technology	847	784	-7.4
D. Major payments to Crown corporations, of which:	3,304	3,431	3.8
Canada Mortgage and Housing Corporation	1,202	1,322	10.0
Canadian Broadcasting Corporation	892	814	-8.7
E. Defence	8,447	7,835	-7.2
F. International assistance ⁽²⁾	1,419	1,570	10.6
G. Other program spending	10,837	11,690	7.9
H. Total program expenditures	75,638	81,573	7.8
I. Public debt charges	32,070	31,265	-2.5
J. Total budgetary expenditures	107,708	112,838	4.8

(1) Cash portion only. Total EPF cash and tax transfers are up 1.1 per cent in 1991-92.

(2) Budgetary cash portion only.

Budgetary expenditures 1990-91 and 1991-92

April to December
Year-over-year growth



Among the other elements of program spending, the increase in elderly benefits reflected increases in both average benefits, which are indexed to quarterly changes in the consumer price index, and the eligible population base. The decline in Established Programs Financing (EPF) cash transfers reflects the impact of the February 1990 budget measure which limited the overall increase in EPF entitlements in 1991-92 to reflect changes in population only, implying a growth of about 1.1 per cent. EPF entitlements are paid in the form of tax point transfers and cash. As the value of tax transfers is unaffected by this measure, this restraint

initiative impacts only on cash transfers, which declined by 3.7 per cent. The growth in fiscal transfers, consisting primarily of equalization transfers to lower-income provinces, reflects the impact of prior-year adjustment recoveries.

The increase in major subsidies and other transfers largely reflects additional assistance to grain farmers due to the international grain subsidy dispute between the European Economic Community and the United States and to higher grants and contributions for Indian and Inuit programs. The increase in transfers to major Crown corporations primarily relates to higher payments to the Canada Mortgage and Housing Corporation. Defence spending is lower, reflecting the impact of incremental spending in 1990-91 related to the Gulf hostilities and savings associated with the replacement of the FST by the GST. The increase in international assistance funding primarily reflects the timing of payments as the Expenditure Control Plan restricted spending growth for 1991-92 to 5 per cent. The increase in other program spending primarily reflects the timing of payments. The government has imposed a year-end freeze on discretionary spending along with a number of additional internal actions. The impact of these actions will be felt in the final quarter of this year.

Total budgetary expenditures in the February 1992 budget are estimated for 1991-92 to be \$155.5 billion, \$3.5 billion lower than forecast in the February 1991 budget. About half of the lower spending results from the impact of lower interest rates on public debt charges. Program spending is expected to be \$1.8 billion lower than estimated in the February 1991 budget, reflecting the impact of full funding of public service pensions, the year-end freeze on discretionary spending and hiring and other internal actions. The lower forecast for budgetary expenditure will offset much of the weakness in budgetary revenues and keep the deficit to \$31.4 billion.

Table 4

Interest Rate Comparisons

	1991				Average
	Q1	Q2	Q3	Q4	1991
A. 90-day paper rate					
1. February 1991 budget	10.0	9.4	9.2	9.2	9.5
2. Actual	10.2	9.1	8.6	7.7	8.9
3. Difference	0.2	-0.3	-0.6	-1.5	-0.6
B. 10-year bond rate					
1. February 1991 budget	11.2	10.9	10.8	10.8	10.9
2. Actual	11.1	11.1	10.8	10.2	10.8
3. Difference	-0.1	0.2	0.0	-0.6	-0.1

The Fiscal Monitor

A Publication of the Department of Finance

May 1992

Highlights of Financial Results for April 1991 to March 1992

- In March 1992, there was a surplus of \$0.8 billion, the first monthly surplus since May 1990 and only the third surplus since the early 1980s.
- As a result, the deficit for the period April 1991 to March 1992, prior to standard supplementary period accounting adjustments, was \$32.6 billion.
- Full-year deficit results for 1991-92 will not be available until the supplementary period adjustments are fully incorporated into the financial data. The financial results in the supplementary period are expected to show a significant improvement over last year. Preliminary financial results for 1991-92 will be available in late summer.
- The performance of the economy was somewhat weaker than expected at the end of 1991 and in the first quarter of 1992, resulting in lower revenues (most notably GST revenues) than estimated in the February 1992 budget, which could put upward pressure on the deficit outcome for 1991-92. Spending, however, is in line with the budget estimate.

Summary

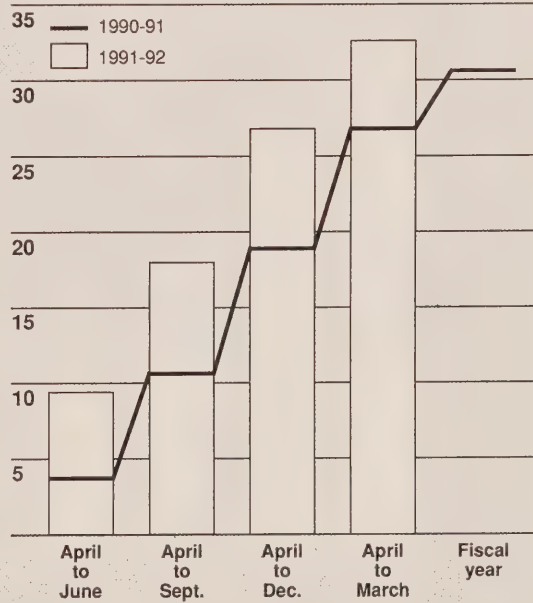
Over the period April 1991 to March 1992, the budgetary deficit was \$32.6 billion. These results, however, are not the full-year deficit results for fiscal year 1991-92. Still to be determined are the standard accounting adjustments recorded in the "supplementary period". Consistent with government accounting principles, these "supplementary period" adjustments primarily reflect the recording of the costs of goods and services provided to the government prior to the end of March. Adjustments are also made to budgetary revenues, primarily to reflect cash in transit at year end.

As indicated in the February 1992 budget, a significant improvement in the deficit, on a year-over-year basis, was expected in the final quarter of 1991-92 and in the supplementary period. On a year-over-year basis, the deficit in the final quarter of 1991-92 did improve as expected, down \$2.9 billion from that recorded in the same period of 1990-91.

The federal deficit
1990-91 and 1991-92

Year to date

billions of dollars



The Fiscal Monitor

Table 1

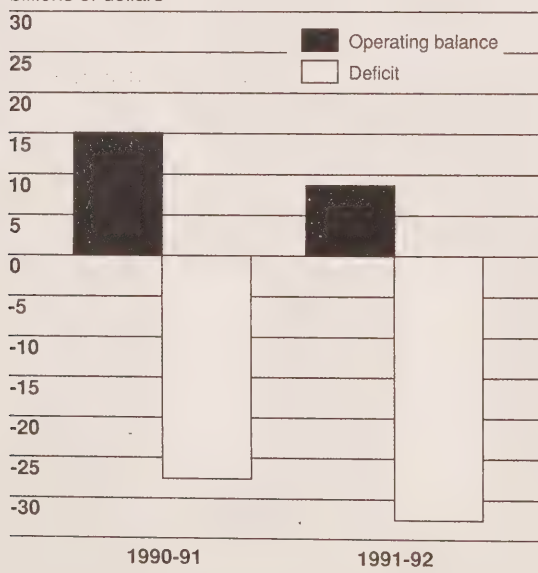
Summary Statement of Transactions

	April to March			
	1988-89	1989-90	1990-91	1991-92
	(millions of dollars)			
A. Budgetary transactions				
1. Revenues	102,045	112,941	119,329	120,991
2. Program spending	-93,102	-98,123	-104,218	-112,315
3. Operating surplus	8,943	14,818	15,111	8,676
4. Public debt charges	-33,223	-38,782	-42,675	-41,275
5. Deficit	-24,280	-23,964	-27,564	-32,599
B. Non-budgetary transactions	2,174	3,638	3,098	954
C. Financial requirements (excluding foreign exchange transactions)	-22,106	-20,326	-24,466	-31,645
D. Foreign exchange transactions: net source(+) / requirement(-)	-5,379	-718	-4,900	942
E. Total financial requirements	-27,485	-21,044	-29,366	-30,703
F. Unmatured debt transactions	27,970	20,747	30,523	29,017
G. Cash balance at end of period	2,020	1,534	2,666	880

The deficit and the operating balance: 1990-91 and 1991-92

April to March
Year-over-year change

billions of dollars



In March 1992, a surplus of \$0.8 billion was recorded, compared to a deficit of \$1.6 billion in March 1991. This improvement reflects the ending of certain transitional costs related to sales tax reform, as well as the impact of previous budget measures. The supplementary period for fiscal year 1991-92 is also expected to show a significant improvement over last year, reflecting the impact of discretionary actions the government took during 1991-92. These include the year-end freeze on discretionary spending and hiring, the full-funding of pensions, reserve reductions, the reprofiling of certain grants, contributions, and capital expenditures to future years, and reduced pension liabilities reflecting low inflation. In addition, certain revenues received in late March but not deposited with the Receiver General until April will be recorded in the supplementary period.

Although a significant improvement is expected in the supplementary period, the final deficit outcome for 1991-92 may exceed the February 1992 budget estimate of \$31.4 billion. Economic data and data revisions that have become available since the February 1992 budget indicate that the performance of the economy at the end of 1991 and in the first

quarter of 1992 was somewhat weaker than originally expected. The impact of the economic developments will be most pronounced on the applicable tax bases, with the result that revenues could be somewhat lower than estimated in the February 1992 budget. In contrast, primarily reflecting the impact of the restraint measures introduced by the government, spending remains on the budget track. The net impact of these developments on the deficit outcome for 1991-92 will not be known until late summer, when the supplementary period adjustments are completed.

The key factors affecting the operating balance throughout the April 1991 to March 1992 period were the impact of the recession and the transitional costs associated with sales tax reform. The weakness in economic activity throughout 1991 and into the first quarter of 1992 has resulted in lower tax bases, particularly personal incomes and corporate profits, and higher unemployment insurance benefits. In addition, revenue growth throughout 1991-92 was dampened by the quarterly payment of the enhanced low-income GST credit and the one-time transitional GST grant paid to small business.

The adverse impact of these factors on the operating balance would have been greater had it not been for the substantial actions taken in previous budgets and during 1991-92. These included, for example, the increases in unemployment insurance premium rates to maintain the financial integrity of the Unemployment Insurance Account, and the ongoing impacts of the Expenditure Control Plan, first introduced in the February 1990 budget and extended and broadened in the February 1991 budget. Measures affecting the supplementary period will add to the operating surplus.

Financial requirements are largely unaffected by the "supplementary period" adjustments. Preliminary results for fiscal year 1991-92 indicate that financial requirements, excluding foreign exchange transactions, were \$31.6 billion. Foreign exchange transactions in 1991-92 resulted in a net source of funds amounting to \$0.9 billion, compared to a net source of \$4.9 billion in the same period last year. As a result, total financial requirements, including foreign exchange transactions, were \$30.7 billion in 1991-92, \$1.3 billion higher than that recorded in 1990-91. Unmatured debt transactions amounted to \$29.0 billion in 1991-92, down \$1.5 billion from 1990-91.

Budgetary Revenues

Budgetary revenues over the April 1991 to March 1992 period increased by 1.4 per cent over the same period last year. During 1991-92, budgetary revenues were affected by a number of factors, including the recession, the transition to the Goods and Services Tax, and actions to maintain the financial integrity of the Unemployment Insurance Account.

The recession has dampened the corporate and personal income tax bases. Corporate profits, in the January 1991 to December 1991 period, were 39 per cent below the level recorded in the same period in 1990. The decline in corporate profits has also resulted in higher refunds, as some losses are being applied against taxes paid in the past. As a result, corporate income tax collections declined 17.9 per cent. The decline in collections is less than the decline in profits owing to the impact of the

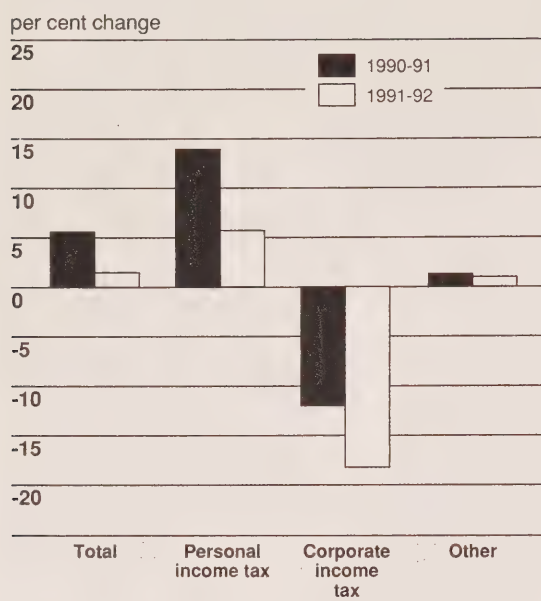
Table 2
Budgetary Revenues

	April to March		Per cent change
	1990-91	1991-92	
	(millions of dollars)		(%)
1. Personal income tax	59,541	62,702	5.3
2. Corporate income tax	11,044	9,069	-17.9
3. Unemployment insurance contributions	12,725	15,462	21.5
4. Goods and Services Tax	2,159	14,365	n/a
5. Sales and excise taxes/duties	23,449	9,877	-57.9
6. Other revenues	10,411	9,516	-8.6
7. Total budgetary revenues	119,329	120,991	1.4

The Fiscal Monitor

Budgetary revenues 1990-91 and 1991-92

April to March
Year-over-year growth



Large Corporations Tax and base-broadening measures introduced as part of the 1988 Income Tax Reform.

Declines in employment and lower inflation dampened increases in wage growth, resulting in an increase of only 3.2 per cent in personal incomes in 1991. Although personal income tax collections were up 5.3 per cent in the April 1991 to March 1992 period, compared to the same period in 1990-91, about one-third of this increase was attributable to recoveries for overpayments to provinces in 1990 under the Provincial Tax Collection Agreements.

The transitional costs associated with the replacement of the federal manufacturers' sales tax by the GST have also served to dampen the growth in budgetary revenues. The transitional costs include the repayment of FST paid on new and unused inventories held at the end of 1990, the transitional grant paid to small business, and the replacement of the FST low-income credit, which was paid at the time of tax filing, by the enhanced low-income GST

credit, which is paid quarterly. The net impact of these transitional costs is estimated to have lowered revenues by about \$2.7 billion in 1991-92. Net GST collections for the period April 1991 to March 1992 amounted to \$14.4 billion. These are not the final results for the fiscal year. Although remitters are required to file their returns by the end of the month, delays in processing resulted in some monies not being deposited with the Receiver General until the first few days of the following month. As a result, monies deposited in early April 1992 will be credited to the 1991-92 fiscal year in the supplementary period. However, the results to date indicate that collections for the year as a whole will be less than estimated in the February 1992 budget (see section entitled "GST Revenues in 1991-92").

Unemployment insurance premium contributions increased by 21.5 per cent on a year-over-year basis. This increase is attributable to the increase in maximum insurable earnings, effective January 1991, which is the base for the calculation of unemployment insurance contributions, coupled with the July 1991 and January 1992 increases in premium rates. Despite these increases in premium rates, the accumulated deficit in the Unemployment Insurance Account is expected to increase by about \$2 billion in 1991-92.

Other revenues, consisting primarily of return on investments, other non-tax revenues, and non-resident taxes declined by 8.6 per cent. This decline reflects, in part, the one-time impact on 1990-91 revenues of the acceleration of Bank of Canada profits as announced in the February 1990 budget.

Economic data and data revisions that have become available since the February 1992 budget indicate that the performance of the economy at the end of 1991 and in the first quarter of 1992 was weaker than expected which could result in lower than expected budgetary revenues. However, corporate tax collections to the end of March 1992 were higher than estimated in the February 1992 budget, which could offset some of the weakness in GST revenues. It is still early to assess what impact these developments will have on the final outcome for budgetary revenues and the deficit.

Table 3

Budgetary Expenditures

	April to March		Per cent change
	1990-91	1991-92	
	(millions of dollars)		(%)
A. Major transfers to persons, of which:	37,098	42,993	15.9
Unemployment insurance program payments	14,388	18,360	27.6
Old age security benefits	17,127	18,388	7.4
Family allowances	2,736	2,808	2.6
B. Major transfers to other levels of government, of which:	25,832	26,287	1.8
Established Programs Financing ⁽¹⁾	7,895	8,830	11.8
Fiscal transfers	10,014	8,734	-12.8
Canada Assistance Plan	5,990	6,130	2.3
C. Major subsidies and other transfers, of which:	8,429	9,519	12.9
Agricultural subsidies	1,873	2,945	57.2
Indian and Inuit programs	2,110	2,375	12.6
Regional / industrial development	750	804	7.2
Science and technology	1,181	1,110	-6.0
D. Major payments to Crown corporations, of which:	4,591	4,489	-2.2
Canada Mortgage and Housing Corporation	1,840	1,759	-4.4
Canadian Broadcasting Corporation	1,078	1,031	-4.4
E. Defence	11,184	10,963	-2.0
F. International assistance ⁽²⁾	2,187	2,337	6.9
G. Other program spending	14,897	15,727	5.6
H. Total program expenditures	104,218	112,315	7.8
I. Public debt charges	42,675	41,275	-3.3
J. Total budgetary expenditures	146,893	153,590	4.6

(1) Cash portion only. Total EPF cash and tax transfers were up 1.1 per cent in 1991-92.

(2) Budgetary cash portion only.

Budgetary Expenditures

Budgetary expenditures were up 4.6 per cent on a year-over-year basis. Public debt charges, the largest single component of budgetary expenditures, declined by 3.3 per cent. The lower public debt charges reflect the decline in interest rates, especially short-term rates, since May 1990. Short-term interest rates in 1991 averaged 8.9 per cent – 410 basis points lower than the 1990 average of 13 per cent. At the end of March 1992, short-term interest rates were 663 basis points below the peak recorded in May 1990.

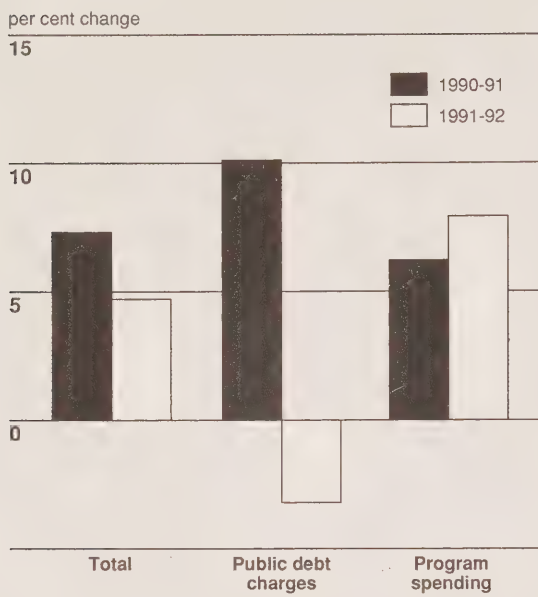
On a year-over-year basis, program spending was up 7.8 per cent. Most of the year-over-year increase reflects the impact of the recession on the cyclically sensitive components of spending, increased assistance to farmers, prior-year adjustments, and the timing of payments.

The year-over-year growth rate is expected to come down once the supplementary period adjustments are incorporated.

Over 70 per cent of the increase in program spending of \$8.1 billion was due to a \$5.9 billion increase in major transfers to persons, primarily reflecting higher unemployment insurance benefit payments and increases in old age security payments. The number of unemployment insurance beneficiaries was up 26.9 per cent over the year earlier level. In addition, average benefits were higher given the composition of the unemployed. The increase in old age security benefit payments reflects increases in both the eligible population base and average benefits. Old age security benefits are indexed to quarterly changes in the consumer price index, which in 1991 included the one-time price increase associated with the introduction of the GST.

Budgetary expenditures 1990-91 and 1991-92

April to March
Year-over-year growth



Major transfers to provinces were up 1.8 per cent on a year-over-year basis, primarily reflecting increased cash transfers under Established Programs Financing (EPF). Under the Expenditure Control Plan, first introduced in the February 1990 budget and extended in the February 1991 budget, total EPF entitlements were frozen in per capita terms. EPF entitlements are paid in the form of tax point transfers and cash. The increase in cash transfers in 1991-92 was attributable to prior-year adjustments, as the data revisions have lowered the value of prior-year tax point transfers. Recoveries with respect to overpayments in 1990-91, coupled with limits on the growth in transfers to Ontario, Alberta, and British Columbia, have restrained the overall increases in Canada Assistance Plan transfers to the provinces. Fiscal transfers were lower, reflecting lower payments under Reciprocal Taxation agreements, due to sales tax reform, and recoveries relating to overpayments in previous years under the Equalization program.

The increase in major subsidies and other transfers largely reflects the transition to the new agricultural income support program. For the 1991 crop year, the Gross Revenue Insurance Program and the Net Income Stabilization Account replaced grain support

previously delivered through the Western Grain Stabilization Account and the Agricultural Stabilization Account programs. Additional assistance to grain farmers, due to the international grain subsidy dispute between the European Economic Community and the United States, was financed by reallocating resources previously set aside, but not used, for the Gulf War. Payments under the *Western Grain Transportation Act* were also higher, due to increased shipments. Grants and contributions for Indian and Inuit programs were also higher.

The decline in transfers to major Crown corporations primarily relates to lower payments to the Canada Mortgage and Housing Corporation and the Canadian Broadcasting Corporation. Defence spending is lower, reflecting the impact of incremental spending in 1990-91 related to the Gulf hostilities and savings associated with the replacement of the FST by the GST. The increase in international assistance funding primarily reflects the timing of payments as the Expenditure Control Plan restricted spending growth for 1991-92 to 5 per cent. The increase in other program spending primarily reflects the timing of payments.

Total budgetary expenditures over the April 1991 to March 1992 period are consistent with the February 1992 budget estimate of \$155.5 billion. The Expenditure Control Plan has effectively restrained the growth in many components of program spending. In addition, discretionary actions undertaken during the course of 1991-92, including the year-end freeze on discretionary spending, scooping of reserves, and full-funding of pensions, will significantly reduce the level of spending in the supplementary period.

Financial Requirements

Non-budgetary transactions in the April 1991 to March 1992 period resulted in a net source of funds of \$1.0 billion, compared to a net source of \$3.1 billion recorded in the corresponding period of 1990-91. Most of the lower net source of funds relates to the transfer to the Provincial Tax Collection Agreements Account to adjust for overpayments to the account with respect to the 1990 taxation year and to a higher encashment of personal income tax refunds.

Financial requirements, excluding foreign exchange transactions, amounted to \$31.6 billion in 1991-92, compared to the February 1992 budget estimate of \$27.5 billion. The higher-than-expected outcome appears to be largely related to the timing of receipts and the faster encashment of personal income tax refund cheques. Neither of these factors is expected to affect the deficit outcome for 1991-92 adversely.

Foreign exchange transactions resulted in a net source of funds of \$0.9 billion, compared to a net requirement of \$4.9 billion in 1990-91. Foreign exchange transactions are primarily directed towards promoting orderly conditions in the Canadian dollar exchange markets.

Total financial requirements, therefore, amounted to \$30.7 billion, up \$1.3 billion from the 1990-91 requirements. The 1991-92 requirement was financed through unmatured debt transactions of \$29.0 billion and a drawdown of \$1.7 billion in cash balances.

GST Revenues in 1991-92

The February 1992 budget estimated net GST revenues at \$16.4 billion for 1991-92. This was based on collections data to the end of December and a forecast of economic developments in the first quarter of 1992.

Net collections over the April 1991 to December 1991 period amounted to \$11.2 billion (see Table 4). Excluding the impact of the quarterly low-income GST Credit and the one-time small business transitional grant, gross collections were \$13.7 billion, or average monthly collections of \$1.5 billion.

An extrapolation of these results, coupled with adjustments to account for the supplementary period and the seasonal impact of Christmas sales on January 1992 collections, resulted in estimated net collections for 1992-92 of \$16.4 billion. However, GST collections in both January 1992 and February 1992 were significantly below the average collections in the preceding nine months. On a net

Table 4

GST: Comparison of Collection Experience to February 1992 Budget Projection

	(millions of dollars)	
A. April to December net collections	11,190	
B. Adjustments:		
- Low-income credit	1,648	
- Small business transitional grant	900	
C. April to December gross collections	13,738 ⁽¹⁾	
D. January to supplementary period		
	Net Collections	
	Expected	Actual
- January 1992 ⁽²⁾	1,400	635
- February 1992	1,500	1,077
- March 1992	1,500	1,462
- Supplementary period ⁽³⁾	800	800
- Outcome for 1991-92	16,390	15,164

⁽¹⁾ Average gross monthly collections of \$1.5 billion over April to December.

⁽²⁾ Net of quarterly low-income GST Credit.

⁽³⁾ Estimate.

basis, the January 1992 results were \$0.8 billion lower than estimated at the time of the February 1992 budget, while the February 1992 results were \$0.4 billion lower. March 1992 collections were consistent with the February 1992 budget estimate. Supplementary period results will not be available until the summer. On the basis of monthly results through to March 1992, GST revenues could be \$1.2 billion lower than estimated at the time of the February 1992 budget.

Based on information available at the time of the February 1992 budget, it appeared that the GST tax base for 1991 had changed only marginally from that estimated in the February 1991 budget, despite weaker economic growth. Data available at the time of the February 1992 budget indicated that weakness in the economy in 1991 was largely concentrated in sectors not subject to the GST – exports and investment – while sectors subject to the GST, notably residential construction, were reasonably robust. Hence, GST collections appeared to be on track with the February 1991 budget forecast through December 1991.

However, data revisions by Statistics Canada after the February 1992 budget, coupled with weakness in retail sales in December 1991, lowered the level

of consumption in the fourth quarter of 1991 by \$3.7 billion or 0.9 per cent below the budget estimate. Heavy discounting by retailers in December and continued weakness in retail sales in the first quarter of 1992 further reduce the tax base to which the GST is applied. As a result of these developments, GST collections for 1991-92 will be below the February 1992 budget estimate, by approximately \$1-\$1.5 billion.

Debt Servicing and Reduction Account

In June 1991, the government introduced legislation in the House of Commons to establish the Debt Servicing and Reduction Account. Upon Royal Assent to the legislation, all GST revenues net of the applicable rebates and credits, net proceeds from the sale of Crown corporations and gifts to the Crown identified for debt reduction will be credited to this Account. The revenues in this Account will be used only to pay interest on the public debt and, ultimately, the public debt. This account, in conjunction with the proposed *Spending Control Act*, which was tabled in the House of Commons on February 14, 1992, will ensure that GST revenues will not be used to fund new program spending.

The information in this Monitor is based on financial results to the end of March 1992. For further information contact: P. DeVries at 996-7397. Cet imprimé est également offert en français.



The Fiscal Monitor

A Publication of the Department of Finance

November 1992

Highlights of the preliminary financial results for 1991-92

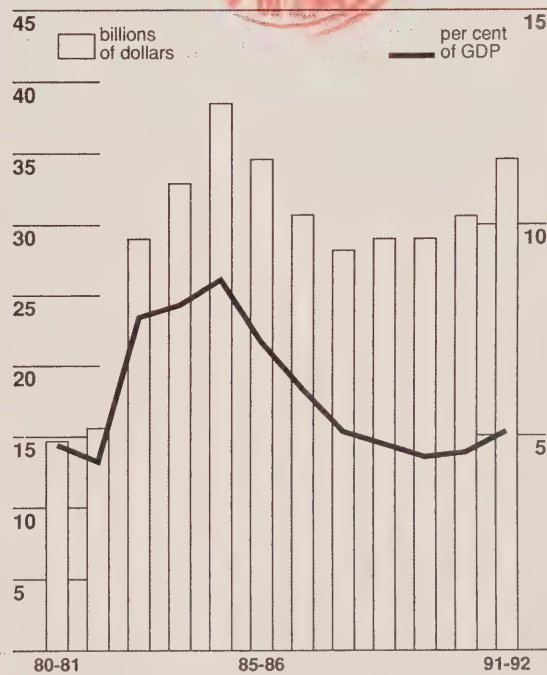
- The preliminary deficit result for 1991-92, on a public accounts basis, is \$34.6 billion. This estimate is up \$4.0 billion from 1990-91 and \$3.2 billion higher than the February 1992 budget projection of \$31.4 billion.
- The higher deficit outcome for 1991-92 reflects the impact of cyclical factors, which dampened the flow of budgetary revenues and increased certain components of spending.
- As a percentage of the economy, the deficit has declined from 8.7 per cent in 1984-85 to 5.1 per cent in 1991-92.
- Program spending, subject to the Spending Control Act, is estimated to be \$1.5 billion below the limit specified for 1991-92.

Summary

The 1990-1991 recession put substantial upward pressure on the deficit in both 1990-91 and 1991-92, as real gross domestic product declined in both 1990 and 1991. The fall in real output, with its accompanying decline in employment and higher unemployment, substantially lowered the growth in revenues and resulted in higher unemployment insurance benefit payments. The fiscal situation in both 1990-91 and 1991-92 was further affected by the transitional costs associated with the replacement of the manufacturers' sales tax with the Goods and Services Tax (GST).

Although the increase in the deficit in 1990-91 was largely contained, the preliminary estimates indicate that the deficit for fiscal year 1991-92 increased by \$4.0 billion to \$34.6 billion. Budgetary revenues advanced by only 2.3 per cent in 1991-92, less than half the growth

Chart 1
The deficit



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Table 1

Summary statement of transactions: Preliminary outcome for 1991-92

	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92
	(billions of dollars)							
A. Budgetary transactions								
1. Revenues	71.1	76.9	85.9	97.6	104.1	113.7	119.4	122.2
2. Program spending	87.1	86.1	90.0	96.8	99.8	103.9	107.4	115.5
3. Operating balance	-16.1	-9.1	-4.1	0.8	4.2	9.8	11.9	6.6
4. Public debt charges	22.5	25.4	26.7	29.0	33.2	38.8	42.5	41.2
5. Deficit	-38.5	-34.6	-30.7	-28.2	-29.0	-29.0	-30.6	-34.6
B. Net public debt	206.3	240.9	271.7	299.9	328.8	357.8	388.2	422.8
C. Non-budgetary transactions: net source(+)/requirement(-)	8.7	4.1	7.8	9.4	6.5	8.5	6.0	2.8
D. Financial requirements (excluding foreign exchange transactions)	-29.8	-30.5	-22.9	-18.8	-22.5	-20.5	-24.5	-31.8
E. Foreign exchange transactions: net source(+)/requirement(-)	2.4	5.6	-6.4	-7.1	-5.7	-0.7	-4.9	0.9
F. Total financial transactions	-27.4	-24.9	-29.3	-25.9	-28.2	-21.2	-29.4	-30.9
G. Unmatured debt transactions	26.8	23.8	29.2	22.9	28.5	20.9	30.5	29.1
H. Cash balance at end of period	5.9	4.7	4.6	1.5	1.8	1.5	2.6	0.8
Memorandum: As a percentage of gross domestic product								
Deficit	8.7	7.2	6.1	5.1	4.8	4.5	4.6	5.1
Financial requirements (excluding foreign exchange transactions)	6.7	6.4	4.5	3.4	3.7	3.2	3.7	4.7
Budgetary revenues	16.0	16.1	17.0	17.7	17.2	17.5	17.9	18.1
Program spending	19.6	18.0	17.8	17.5	16.5	16.0	16.1	17.1
Net public debt	46.4	50.4	53.7	54.4	54.3	55.1	58.2	62.7

witnessed in 1990-91. Program spending increased by 7.5 per cent, with half of the increase attributable to increased unemployment insurance benefits.

The adverse impact of these factors on the deficit would have been greater had it not been for the substantial actions taken in previous budgets and during 1991-92. These included, for example, the increases in unemployment insurance premium rates to maintain the

financial integrity of the Unemployment Insurance Account, and the ongoing impacts of the Expenditure Control Plan, first introduced in the February 1990 budget and extended and broadened in the February 1991 budget. In addition, during the course of 1991-92, expenditure reduction measures were implemented, including a freeze on discretionary spending, which further restrained the increase in the deficit.

As a result of these actions, spending subject to control under the *Spending Control Act* was \$1.5 billion below the limit specified in the Act. Public debt charges declined 3.1 per cent, reflecting the decline in interest rates.

Preliminary results for fiscal year 1991-92 indicate that financial requirements, excluding foreign exchange transactions, were \$31.8 billion. Foreign exchange transactions in 1991-92 resulted in a net source of funds amounting to \$0.9 billion, compared to a net requirement of \$4.9 billion in 1990-91. As a result, total financial requirements, including foreign exchange transactions, were \$30.9 billion in 1991-92, \$1.4 billion higher than that recorded in 1990-91. Unmatured debt transactions amounted to \$29.1 billion in 1991-92, down \$1.4 billion from 1990-91.

With the deficit increasing in 1991-92, coupled with virtually no growth in nominal gross domestic product (GDP) – nominal GDP advanced by only 1.0 per cent in 1991 – the deficit, as a percentage of the economy, stood at 5.1 per cent, up from 4.6 per cent recorded in 1990-91, but still well below the peak of 8.7 per cent recorded in 1984-85.

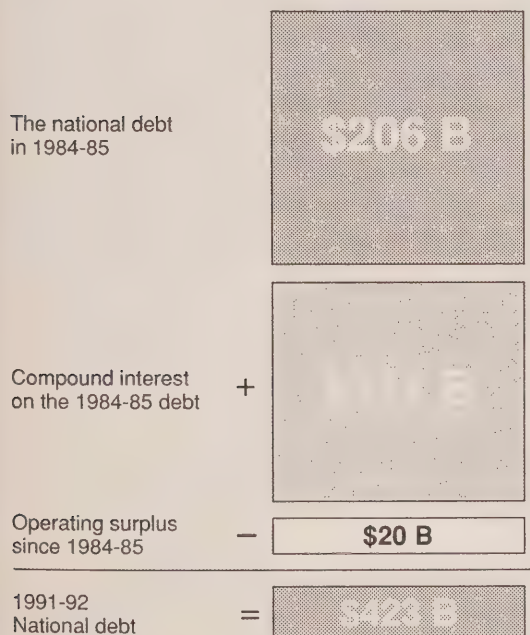
The operating balance – the difference between budgetary revenues and program spending – has been in a surplus since 1987-88. In 1991-92, a surplus of \$6.6 billion was recorded, resulting in a cumulative surplus since 1987-88 of \$33.3 billion. However, the extent of the improvement in the deficit has been limited by higher debt interest payments. Since 1987-88, public debt charges have been larger than the entire public accounts deficit.

The net public debt – the cumulation of budgetary deficits and surpluses since Confederation – stood at \$422.8 billion as of March 31, 1992, or 62.7 per cent of GDP. This represents an increase of \$216.5 billion in net public debt since 1984-85. However, all of the increase in the net debt since 1984-85 is attributable to the compound interest on the stock of debt in 1984-85, as the government has run a cumulative operating surplus of \$20.2 billion since that time.

Final fiscal year results for 1991-92 will be published in the Public Accounts of Canada scheduled for release in December 1992.

The preliminary deficit outcome for 1991-92 was \$3.2 billion higher than the February 1992 budget estimate. Economic data and data revisions that have become available since the February 1992 budget indicate that the performance of the economy at the end of 1991 and in the first quarter of 1992 was weaker than originally expected. The impact of the economic developments was most pronounced on the

Chart 2
**The debt treadmill:
How compound interest pushed up the debt**



applicable tax bases, with the result that revenues were \$1.9 billion lower than estimated in the February 1992 budget. Budgetary expenditures were \$1.3 billion higher than estimated in the February 1992 budget, primarily due to higher unemployment insurance benefits and agricultural subsidy liabilities.

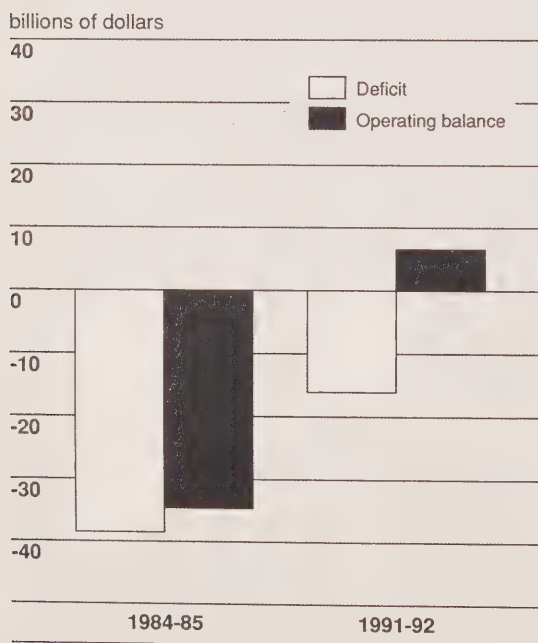
Budgetary revenues

Budgetary revenues in 1991-92 advanced by only 2.3 per cent, less than half the increase recorded in 1990-91. The weakness in revenues in 1991-92 reflects the impact of the recession and the transitional costs associated with the replacement of the federal manufacturers' sales tax (FST) with the Goods and Services Tax (GST). Nominal gross domestic product advanced by only 1 per cent in 1991, following an increase of 2.8 per cent in 1990. This sluggishness in the growth in nominal incomes,

reflecting declines in employment, a deceleration in wage growth, and declines in interest income, served to dampen the applicable tax bases. The transitional costs include the repayment of FST paid on new and unused inventories held at the end of 1990, the transitional grant paid to small business, and the replacement of the FST low-income credit, which was paid at the time of tax filing, by the enhanced low-income GST credit, which is paid quarterly. The net impact of these transitional costs is estimated to have lowered revenues by about \$3.2 billion in 1991-92. The impact of these factors was partially offset by increases in unemployment insurance premium contributions, primarily due to increases in premium rates and certain prior year recoveries affecting personal income tax collections.

Personal income tax revenue in 1991-92 increased by 6.3 per cent. This was down from the increase of 11.0 per cent recorded in 1990-91. This deceleration in the rate of growth in personal income tax collections in 1991-92 was related to economic developments. Personal incomes in 1991 advanced by only 3 per cent, as declines in employment and lower inflation dampened increases in employment income, while lower interest rates and dividends resulted in a decline in investment income. The full impact of these economic developments was not fully reflected in 1991-92 personal income tax collections, given the lags in collections and the payment of refunds. Much of the increase in personal income tax revenues in 1991-92 was attributable to technical and policy factors. With the replacement of the manufacturers' sales tax with the GST, the federal sales tax credit, which was paid at the time of tax filing and netted against personal income taxes otherwise payable, was replaced by the enhanced payment of the quarterly low-income GST Credit, which is netted against GST collections. Recoveries in fiscal year 1991-92 for overpayments to the Provincial Tax

Chart 3
The deficit and the operating balance



Collection Agreements Account for both 1990 and 1991 and to the Unemployment Insurance Account also served to increase personal income tax revenues in 1991-92.

Corporation income tax revenue declined by 20.2 per cent in 1991-92. This marks the second consecutive year in which corporate income tax collections have declined. Corporate income tax collections are down 28 per cent from their peak in 1989-90. This decline reflects the impact of the recession on corporate profits. Rising unit labour costs and weakening demand have left corporate profit margins at their lowest levels since the 1981-1982 recession. Corporate profits have declined steadily since the fourth quarter of 1988 and by the end of 1991 were nearly 65 per cent below their pre-recession peak. The decline in corporate income tax revenue has been proportionally less than the cumulative decline in corporate profits, owing in part to the impact of the base-broadening measures introduced as part of the 1988 Income Tax Reform as well as the introduction in the April 1989 budget of the Large Corporations Tax.

In 1991-92, unemployment insurance contributions increased by 21.1 per cent,

attributable to the increases in maximum insurable earnings, effective at the beginning of each calendar year, which is the base for the calculation of unemployment insurance contributions, coupled with the July 1, 1991 and January 1, 1992 increases in premium rates. Premium rates for employees increased from \$2.25 per \$100 of insurable earnings to \$2.80 on July 1, 1991 and to \$3.00 on January 1, 1992. The premium rate increases in fiscal year 1991-92 were implemented to maintain the financial integrity of the Unemployment Insurance Account. This account is intended to be self-financing through employee-employer premiums.

Sales and excise taxes and duties include the Goods and Services Tax, customs import duties, energy taxes, and other excise taxes and duties, most notably excise taxes on tobacco products and alcohol. In 1990-91, this component included the manufacturers' sales tax. The decline in this component in 1991-92 primarily reflects the transitional costs associated with the replacement of the FST with the GST.

The Goods and Services Tax became effective January 1, 1991, replacing the federal

Table 2
Budgetary revenues

	1990-91	1991-92	Year-over-year change
	(millions of dollars)		(per cent)
A. Personal income tax	57,601	61,222	6.3
B. Corporate income tax	11,726	9,359	-20.2
C. Unemployment insurance contributions	12,707	15,394	21.1
D. Sales and excise taxes and duties	26,143	25,196	-3.6
1. Goods and Services Tax	2,574	15,168	
2. Other sales and excise taxes/duties	23,569	10,028	
E. Other revenues	11,210	11,014	-1.7
F. Total budgetary revenues	119,387	122,185	2.3

manufacturers' sales tax. The GST is applied at a rate of 7 per cent on most goods and services consumed in Canada, with the exception of basic groceries, most health and dental care services, most educational services, and residential rents. In contrast, the manufacturers' sales tax was applied solely to manufactured goods at a general rate of 13.5 per cent. In 1991-92, the first full fiscal year of implementation, net GST revenues amounted to \$15,168 million. These collections are net of the low-income GST Credit, which amounted to \$2.3 billion, and the one-time payment of the transitional grant to small business, which was estimated at \$0.9 billion. The net revenues from the GST are required by law to be deposited in the Debt Servicing and Reduction Account, to be used solely to pay the interest on the public debt.

The decline in other sales and excise taxes and duties was attributable to the elimination of the manufacturers' sales tax, coupled with the repayment of FST paid on new and unused inventories held at the end of 1990.

Other revenues include non-resident tax, other tax revenue, and non-tax revenue. Most of the decline in 1991-92 was due to the impact of the decline in interest rates on the various interest-sensitive components and lower recoveries.

The preliminary outcome for total budgetary revenues was \$1.9 billion lower than forecast in the February 1992 budget. This was largely attributable to lower-than-expected sales and excise tax revenues. GST revenues were \$1.2 billion lower than expected. Based on information available at the time of the February 1992 budget, it appeared that the GST tax base for 1991 had changed only marginally from that estimated in the February 1991 budget, despite weaker economic growth. Data available at the time of the February 1992 budget indicated that weakness in the economy in 1991

was largely concentrated in sectors not subject to the GST – exports and investment – while sectors subject to the GST, notably residential construction, were reasonably robust. Data revisions by Statistics Canada after the February 1992 budget, coupled with weakness in retail sales in December 1991, lowered the level of consumption in the fourth quarter of 1991 by \$3.7 billion or 0.9 per cent below the budget estimate. Heavy discounting by retailers in December and continued weakness in retail sales in the first quarter of 1992 further reduced the tax base to which the GST is applied. In addition, rebates to manufacturers pertaining to FST paid on new and unused inventories held at the end of 1990 were higher than expected.

Budgetary expenditures

Budgetary expenditures were up 4.5 per cent on a year-over-year basis. Public debt charges, the largest single component of budgetary expenditures, declined by 3.1 per cent. The lower public debt charges reflect the decline in interest rates, especially short-term rates, since May 1990. Short-term interest rates in 1991 averaged 8.9 per cent – 410 basis points lower than the 1990 average of 13 per cent. At the end of March 1992, short-term interest rates were 663 basis points below the peak recorded in May 1990.

The increase in program spending of 7.5 per cent in 1991-92 was largely attributable to the impact of the recession on the cyclically sensitive components of spending, such as unemployment insurance benefits and cash transfers to provinces under Established Programs Financing, and increased assistance to farmers. However, the impact of these components was largely offset by expenditure reduction initiatives introduced in previous budgets. Over the 1984-85 to 1991-92 period, program spending has increased at an annual

Table 3

Budgetary expenditures

	1990-91	1991-92	Per cent change
	(millions of dollars)		(%)
A. Major transfers to persons of which:	36,084	41,103	13.9
Unemployment insurance program payments	14,665	18,319	24.9
Old age security benefits	17,131	18,393	7.4
Family allowances	2,736	2,821	3.1
B. Major transfers to other levels of government of which:	23,197	24,786	6.9
Established Programs Financing ¹	7,895	8,831	11.9
Fiscal transfers	9,856	9,514	3.6
Canada Assistance Plan	5,788	6,099	5.4
C. Major subsidies and other transfers of which:	11,020	13,011	18.1
Agricultural subsidies	2,955	4,224	42.9
Indian and Inuit programs	2,260	2,595	14.8
Regional/Industrial Development	1,113	1,154	3.7
Science and technology	900	927	3.0
D. Major payments to Crown corporations of which:	5,180	5,154	-0.5
Canadian Broadcasting Corporation	1,078	1,031	-4.4
Canada Mortgage and Housing Corporation	1,979	1,904	-3.8
E. Defence	11,689	11,512	-1.5
F. International Assistance ²	2,511	2,843	13.2
G. Other program spending	17,751	17,127	-3.5
H. Total program expenditures	107,432	115,536	7.5
I. Public debt charges	42,537	41,231	-3.1
J. Total budgetary expenditures	149,969	156,767	4.5

¹ Cash portion only. Total EPF cash and tax transfers are up 1.1 per cent in 1991-92.

² Budgetary cash portion only.

average rate of only 4.1 per cent, compared to an increase in inflation of 4.6 per cent. As a percentage of the economy, program spending has declined from the postwar peak of 19.6 per cent recorded in 1984-85 to 17.1 per cent in 1991-92.

Over 70 per cent of the increase in program spending of \$8.1 billion was due to a \$5.0 billion increase in major transfers to persons, primarily reflecting higher unemployment insurance benefit payments and increases in old age security payments. The number of unemployment insurance beneficiaries was up

26.9 per cent over the year earlier level. The increase in old age security reflected increases in both the eligible population base and average benefits. Old age security benefits are indexed to quarterly changes in the consumer price index, which in 1991 included the one-time price increase associated with the introduction of the GST.

Major transfers to provinces were up 6.9 per cent on a year-over-year basis, primarily reflecting increased cash transfers under Established Programs Financing (EPF). Under the Expenditure Control Plan, introduced in the

February 1990 budget, total EPF entitlements on a per capita basis were held constant at the 1989-90 levels. As a result, total EPF entitlements increased by just over 1 per cent in 1991-92. However, EPF entitlements are paid in the form of tax point transfers, which are affected by changes in the applicable tax bases, with the difference paid in cash. It is the cash component that affects program spending. The weakness in the tax bases in both 1990 and 1991 reduced the value of the tax point transfer, thereby resulting in substantially higher cash transfers. Transfers under the Canada Assistance Plan advanced 5.4 per cent in 1991-92. Under the Canada Assistance Plan, the federal government provides funds to provinces and territories to help them pay for certain social assistance benefits and services. Under the Expenditure Control Plan, the growth in these transfers to Ontario, Alberta, and British Columbia are capped at 5 per cent per year. Fiscal arrangement transfers increased by 3.6 per cent in 1991-92. The largest component, equalization payments to lower-income provinces, however, declined by 1.8 per cent, primarily reflecting the impact of the recession, most particularly in Ontario, on the tax bases used in the equalization formula.

Major subsidies and other transfers include assistance in the stabilization of market prices for commodities, the development of new technologies, research, the establishment of new jobs through training, the provision of social, health and economic services to Indian and Inuit peoples, and the promotion of educational and cultural activities. The 18.1 per cent increase registered in this component largely reflects the transition to the new agricultural income support programs. For the 1991 crop year, the Gross Revenue Insurance Program and the Net Income Stabilization Account replaced grain support previously delivered through the Western Grain Stabilization Account and the Agricultural Stabilization Account programs. Additional

assistance to grain farmers, due to the international grain subsidy dispute between the European Economic Community and the United States, was financed by reallocating resources previously set aside, but not used, for the Gulf War. Payments under the *Western Grain Transportation Act* were also higher, due to increased shipments. Grants and contributions for Indian and Inuit programs were also higher.

The decline in transfers to major Crown corporations primarily relates to lower payments to the Canada Mortgage and Housing Corporation and the Canadian Broadcasting Corporation. Defence spending is lower, reflecting the impact of incremental spending in 1990-91 related to the Gulf hostilities and savings associated with the replacement of the FST by the GST. The increase in international assistance funding primarily reflects the timing of payments relating to Canada's international obligations.

Other program expenditures include spending on government administration and specific services delivered to the public, such as:

- health care to natives and veterans;
- research undertaken by government employees;
- the operation of airports and national parks;
- the operation of federal correctional institutions; and
- the provision of police services.

Other program expenditures declined by 3.5 per cent in 1991-92. Spending remained restrained in 1991-92 due to the ongoing restraint measures introduced in past budgets and specific reduction initiatives undertaken in 1991-92. In the February 1991 budget, the government announced that departmental non-wage and

capital operating budgets would be frozen for 1991-92 and that departmental operating budgets would not be adjusted for any increase in wage costs resulting from new negotiated collective agreements in 1991-92. To effect the latter decision, legislation was passed in the fall of 1991 to freeze all federal government employees' wages for the first year in any new contract and to limit the increase in the second year to a maximum of 3 per cent. In addition, layers of management were eliminated and the number of executives in the federal public service reduced by 10 per cent.

Legislation to bring federal pension legislation into compliance with the *Income Tax Act* and address some long-standing fairness issues has received Royal Assent. In addition, this Act puts federal public service pension plans on a fully funded basis, consistent with private sector plans. Until the passage of this Act, the

federal government incurred expenditures to cover indexing costs to the extent that a pensioner's own indexing credits had been exhausted, which in 1990-91 amounted to nearly \$1 billion. Such payments directly impacted on program spending. With the passage of the Act, existing and future pension benefits are to be fully funded as they are earned, including the indexation costs. As a result, the government will no longer be making separate payments to cover shortfalls in indexation costs.

The Spending Control Act

On June 18, 1992, Royal Assent was given to Bill C-56 "An Act respecting the control of government expenditures" – the *Spending Control Act*. This Act imposes legislated limits on the amount of federal government spending over the five-year period – 1991-92 to 1995-96.

Table 4
Spending Control Act for the year ended March 31, 1992

	1991-92
	(millions of dollars)
Total expenditure for the year	156,767
Less:	
Public debt charges	41,231
Expenditures under the <i>Unemployment Insurance Act</i>	
Benefits	18,319
Administration	1,207
Expenditures under the <i>Farm Income Protection Act</i>	
Crop Re-insurance	52
Revenue Insurance Fund	16
Expenditures related to events occurring prior to April 1991	241
Total adjustments	61,066
Spending subject to spending limit	95,701
Spending limit for 1991-92	97,200
Underspending for 1991-92	-1,499

The legislated spending limits are based on the spending projections contained in the February 1991 budget. Adjustments are made to exclude spending related to public debt charges, major self-financing programs (*Unemployment Insurance Act* and federal advances under the *Farm Income Protection Act*), expenditures made as a result of emergencies, expenditures related to events occurring prior to April 1991, and losses on the sale or disposal of shares in Crown corporations.

The spending limit for 1991-92, as specified under the Act, is \$97.2 billion. Spending during the course of 1991-92 subject to the *Spending Control Act* amounted to \$95.7 billion – \$1.5 billion below the spending limit for the year. The lower spending was largely attributable to the discretionary actions undertaken during the course of 1991-92 to contain the growth in the deficit. Under the *Spending Control Act*, this underspending may be carried forward to offset overspending in future years.

Financial requirements

Non-budgetary transactions in 1991-92 resulted in a net source of funds of \$2.8 billion, compared to a net source of \$6.0 billion recorded in 1990-91. Most of the lower net source of funds relates to the transfer from the Provincial Tax Collection Agreements Account to adjust for overpayments to the account with respect to the 1990 taxation year, increased loans to the Canada Deposit Insurance Corporation, and to a higher encashment of government cheques at the end of the year.

Financial requirements, excluding foreign exchange transactions, amounted to \$31.8 billion in 1991-92, up from the 1990-91 requirement of

\$24.5 billion. The higher requirement is attributable to both the increase in the deficit in 1991-92 and the timing of receipts and payments at year end. Foreign exchange transactions are primarily directed towards promoting orderly conditions in the Canadian dollar exchange markets. In 1991-92, foreign exchange transactions resulted in a net source of funds of \$0.9 billion, compared to a net requirement of \$4.9 billion in 1990-91.

Total financial requirements, therefore, amounted to \$30.9 billion, up \$1.4 billion from the 1990-91 requirements. The 1991-92 requirement was financed through unmatured debt transactions of \$29.1 billion and a drawdown of \$1.8 billion in cash balances.

The Debt Servicing and Reduction Account

On June 18, 1992, Royal Assent was granted to legislation establishing the Debt Servicing and Reduction Account. All GST revenues net of the applicable rebates and credits, net proceeds from the sale of Crown corporations and gifts to the Crown identified for debt reduction will be credited to this Account. The revenues in this Account can be used only to pay interest on the public debt and, ultimately, the public debt. This Account, in conjunction with the *Spending Control Act*, which also received Royal Assent on June 18, 1992, ensures that GST revenues will not be used to fund new program spending.

Net GST collections amounted to \$15.2 billion in 1991-92. Gifts to the Crown, earmarked for deficit reduction, totalled \$389,483.91, while net proceeds from the disposition of the government's interest in Crown corporations amounted to \$2.5 million.

Table 5

The Debt Servicing and Reduction Account

		(thousands of dollars)
Receipts		
1. Net GST collections		15,168,461
2. Net privatization proceeds		2,497
3. Private remittances		389
		<hr/>
4. Total		15,171,347

The information in this Monitor is based on preliminary financial results for 1991-92. For further information contact: P. DeVries at 996-7397. Cet imprimé est également offert en français.



The Fiscal Monitor

A Publication of the Department of Finance

November 1992

Highlights of financial results for April 1992 to September 1992

- In the first six months of fiscal year 1992-93 (April to September), the federal deficit, on a public accounts basis, amounted to \$18.9 billion, \$0.9 billion higher than that recorded in the corresponding period of 1991-92.
- The continuing weakness in nominal incomes has adversely affected the deficit, on a year-over-year basis, primarily through its negative impact on budgetary revenues.

Summary

In the first six months of fiscal year 1992-93 (April to September), the budgetary deficit was \$18.9 billion, \$0.9 billion higher than that recorded in the corresponding period of 1991-92. This increase in the deficit largely resulted from a pronounced weakness in revenue growth, reflecting both the weakness in incomes in 1991 and the continuing sluggishness in nominal income growth in 1992. Budgetary revenues fell by 0.2 per cent in the first six months of 1992-93 as compared to the February 1992 budget forecast of a 6.4 per cent increase for all of 1992-93. The weakness in incomes adversely affected personal, corporate and Goods and Services Tax (GST) revenues. Higher unemployment insurance contributions and the ending of the transitional costs associated with replacing the federal manufacturers' sales tax (FST) by the GST provided a partial offset. The rise in the deficit was also moderated by the impact of lower interest rates on public debt charges – which declined by 6.6 per cent. Program spending rose by 4.0 per cent in the first half of 1992-93, slightly below the full year 4.7 per cent increase projected in the 1992 budget.

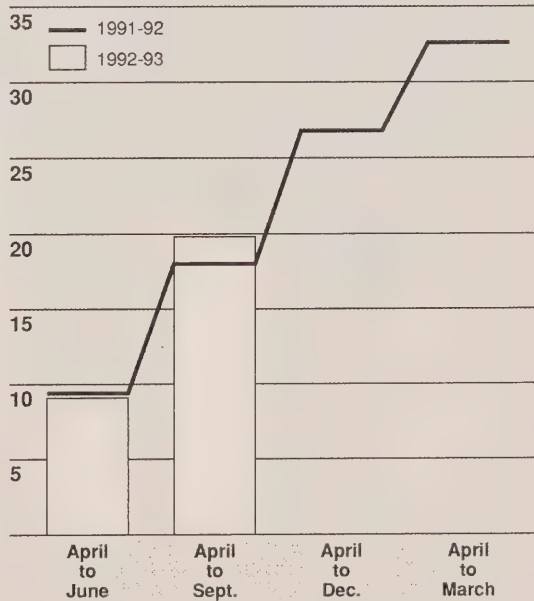
Financial requirements, excluding foreign exchange transactions, were \$19.4 billion in the first half of 1992-93, up \$0.6 billion from the first half of 1991-92. Foreign exchange transactions in the first half of 1992-93 resulted in a net source of funds

amounting to \$4.1 billion, compared to \$0.2 billion in the same period last year. As a result, total financial requirements, including foreign exchange transactions, were \$15.3 billion for the first half of 1992-93, down \$3.2 billion from the first half of 1991-92.

The federal deficit 1991-92 and 1992-93

Year to date

billions of dollars



The Fiscal Monitor

Table 1

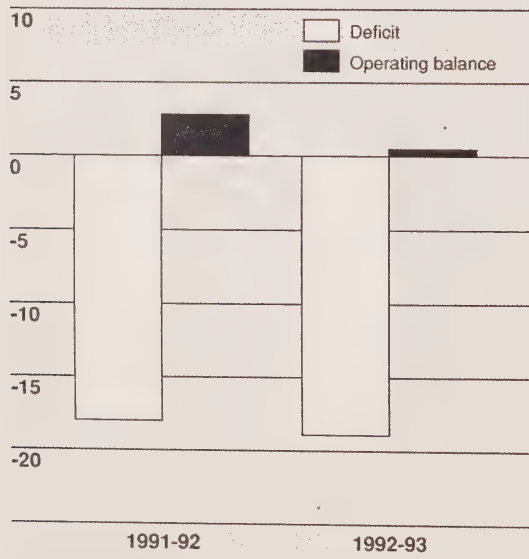
Summary statement of transactions: April to September

	1989-90	1990-91	1991-92	1992-93
	(millions of dollars)			
A. Budgetary transactions				
1. Revenues	51,818	60,000	56,321	56,205
2. Program spending	-46,257	-49,151	-53,565	-55,704
3. Operating surplus	5,561	10,849	2,756	501
4. Public debt charges	-19,132	-21,451	-20,757	-19,380
5. Deficit	-13,571	-10,602	-18,001	-18,879
B. Non-budgetary transactions	2,248	2,041	-774	-496
C. Financial requirements (excluding foreign exchange transactions)	-11,323	-8,561	-18,775	-19,375
D. Foreign exchange transactions: net source (+)/requirement (-)	-1,548	-4,336	230	4,053
E. Total financial requirements	-12,871	-12,897	-18,545	-15,322
F. Unmatured debt transactions	12,060	12,886	18,422	18,225
G. Cash balance at end of period	1,021	1,499	2,448	3,667

The deficit and the operating balance: 1991-92 and 1992-93

April to September

billions of dollars



The fiscal outcome for the year as a whole will be dependent on economic conditions, interest rate developments over the course of 1992 and the timing of policy measures. However, data revisions that have become available since the February 1992 budget indicate that the level of nominal income is considerably lower than expected which, combined with weaker-than-expected taxable income growth to date in 1992, is putting upward pressure on the deficit outcome for 1992-93. While it is still too early to assess the net impact of these developments on the government's financial situation for 1992-93, the deficit will exceed the level projected at the time of the February 1992 budget.

Budgetary revenues

During the first half of 1992-93, budgetary revenues declined by 0.2 per cent on a year-over-year basis. Three major components of budgetary revenues, personal income taxes, corporate income taxes and GST revenues, were lower in the first half of 1992-93 as compared to the same period in 1991-92. These declines were offset to some extent by higher unemployment insurance contributions.

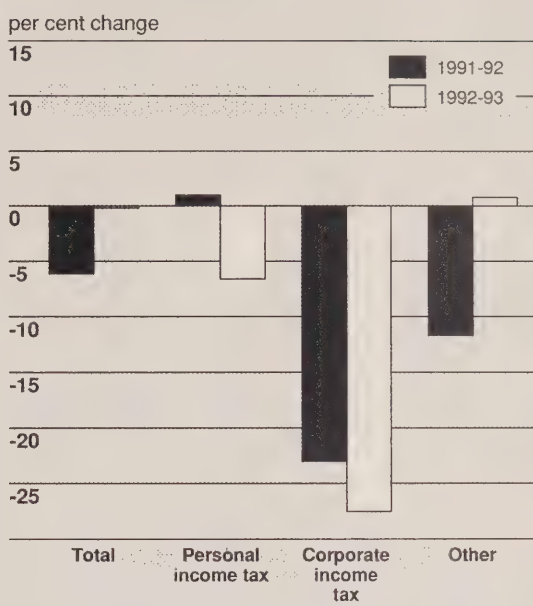
The continuing sluggishness in nominal income growth have dampened the various tax bases, resulting in declines in personal and corporate income tax revenues, as well as net GST collections. Personal income tax collections, on a year-over-year basis, were down 6.6 per cent in the first half of 1992-93. Much of this decline reflects lower tax liabilities for the 1991 taxation year. This had a major impact when individuals filed their tax return in spring of 1992. That led to a significant reduction in taxes owing and higher refunds, thus lowering the overall collections in the fiscal half of 1992-93 vis-à-vis year earlier collections. Income growth in 1992 continues to be weak, thereby further dampening the overall growth in fiscal income tax collections.

The decline in corporate income tax collections experienced in the first half of 1992-93 was largely attributable to higher refunds, as losses are being applied against taxes paid in the past as well as taxes currently owing. Refunds were also higher in the first half of 1992-93 due to the impact of a court decision. Although corporate profits did increase marginally in the first half of 1992, they are still over 55 per cent below their 1988 peak.

Over the first half of 1992-93, goods and services tax collections were also lower. The extent of the decline was somewhat understated as last year's collections were dampened by the payment of the one-time transitional grant to small business. The year-over-year decline in GST collections reflects the weakness in consumer demand and the impact of a number of technical factors which resulted in a one-time gain in

Budgetary revenues 1991-92 and 1992-93

April to September
Year-over-year growth



revenues in the first half of 1991-92, which more than offset the payment of the small business transitional grant.

Offsetting the impact of these declines were higher sales and excise tax collections and unemployment insurance premium contributions. The increase in sales and excise tax collections was largely related to

Table 2

Budgetary revenues: April to September

	1991-92	1992-93	Per cent change
	(millions of dollars)		(%)
1. Personal income tax	31,029	28,970	-6.6
2. Corporate income tax	3,849	2,790	-27.5
3. Unemployment insurance contributions	7,322	9,234	26.1
4. Goods and Services Tax	7,348	6,375	-13.2
5. Sales and excise taxes/duties	3,825	5,722	49.6
6. Other revenues	2,948	3,114	5.6
7. Total budgetary revenues	56,321	56,205	-0.2

Foreign exchange transactions resulted in a net source of funds of \$4.1 billion, compared to a source of \$0.2 billion in the first half of 1991-92. Total financial requirements, therefore, amounted to \$15.3 billion in the first half of 1992-93, down \$3.2 billion from the 1991-92 requirements. The 1992-93 requirement was financed through unmatured debt transactions of \$18.2 billion, resulting in an increase in cash balances of \$2.9 billion.

Debt Servicing and Reduction Account

In June 1992, legislation to establish the Debt Servicing and Reduction Account received Royal Assent. As a result, effective April 1, 1991, all GST

revenues net of the applicable rebates and credits, net proceeds from the sale of Crown corporations and gifts to the Crown identified for debt reduction are to be credited to this Account. The revenues in this Account are to be used only to pay interest on the public debt and, ultimately, the public debt. This Account, in conjunction with the *Spending Control Act*, which also received Royal Assent in June 1992, will ensure that GST revenues will not be used to fund new program spending.

Net GST revenues for fiscal year 1991-92 amounted to \$15,168 million. In addition, gain on the disposal of shares in interest in Crown corporations amounted to \$2.5 million, while gifts to the Crown amounted to \$389,483.91.

Table 4

Debt Servicing and Reduction Account

	Fiscal year 1991-92	First half 1992-93
	(millions of dollars)	
Net GST revenues	15,168	6,375
Net proceeds from privatization/private remittance	3	—
Total proceeds	15,171	6,375

The information in this Monitor is based on financial results for the six months ended September 30, 1992. For further information contact: P. DeVries at 996-7397. Cet imprimé est également offert en français.



Table 3

Budgetary expenditures: April to September

	1991-92	1992-93	Per cent change
	(millions of dollars)		(%)
A. Major transfers to persons of which:	20,452	21,720	6.2
Unemployment insurance program payments	8,647	9,004	4.1
Old age security benefits	9,046	9,451	4.5
Family allowances	1,425	1,453	2.0
B. Major transfers to other levels of government of which:	12,975	13,630	5.0
Established Programs Financing ¹	3,776	4,073	7.9
Fiscal transfers	5,126	5,144	0.4
Canada Assistance Plan	3,542	3,814	7.7
C. Major subsidies and other transfers of which:	3,375	3,827	13.4
Agricultural subsidies	867	1,013	16.8
Indian and Inuit programs	1,444	1,581	9.5
Science and technology	518	553	6.7
D. Major payments to Crown corporations of which:	2,243	1,996	-11.0
Canada Mortgage and Housing Corporation	890	811	-8.9
Canada Broadcasting Corporation	568	625	10.1
E. Defence	5,038	4,828	-4.2
F. International Assistance	957	975	1.8
G. Other program spending	8,524	8,728	2.4
H. Total program expenditures	53,565	55,704	4.0
I. Public debt charges	20,757	19,380	-6.6
J. Total budgetary expenditures	74,322	75,084	1.0

¹ Cash portion only. Total EPF cash and tax transfers are up 1.1 per cent in 1992-93.

growth in the applicable tax bases in 1990 and 1991 has resulted in higher cash payments under Established Programs Financing (EPF) and has moderated the growth in fiscal transfers, primarily equalization payments to lower-income provinces. Under the Expenditure Control Plan, first introduced in the February 1990 budget and extended in the February 1991 budget, total EPF entitlements to provinces are limited to reflect changes in population only, implying a growth of about 1 per cent. EPF entitlements are paid in the form of tax point transfers and cash. The increase in cash transfers in the first half of 1992-93 reflected the downward revisions to the applicable taxes, which lowered the value of both prior-year and current year tax point transfers. The increase in Canada Assistance Plan transfers was primarily related to higher transfers to equalization-receiving provinces, reflecting higher welfare case loads.

Higher agricultural subsidy payments under the Gross Revenue Insurance Plan, coupled with increased transfers to Indian and Inuit peoples,

accounted for most of the increase in subsidies and other major transfers. Lower capital expenditures, primarily relating to the timing of payments, resulted in lower defence spending. Other program spending, consisting primarily of the operating costs of government, remained restrained reflecting the impact of previous budget measures.

Financial requirements

Non-budgetary transactions in the half of 1992-93 resulted in a net requirement of funds amounting to \$0.5 billion, compared to a requirement of \$0.8 billion recorded in the corresponding period of 1991-92. With a deficit of \$18.9 billion and a net requirement of funds from non-budgetary transactions of \$0.5 billion, financial requirements, excluding foreign exchange transactions, amounted to \$19.4 billion in the first half of 1992-93, up \$0.6 billion from the requirements in 1991-92.

the ending of transitional costs associated with the replacement of the FST by the GST. More specifically, the repayment in 1991 of FST paid on goods in inventory as of December 31, 1990 significantly dampened revenues in this component in 1991-92.

Unemployment insurance premium contributions increased by 26.1 per cent on a year-over-year basis. This increase is attributable to the increase in maximum insurable earnings, effective January 1992, which is the base for the calculation of unemployment insurance contributions, coupled with the July 1, 1991 and January 1, 1992 increases in premium rates. The increases in premium rates were introduced to ensure the financial integrity of the Unemployment Insurance Account.

The revenue collections in the first half of 1992-93 mirror the data revisions for 1991 and economic data that have become available since the February 1992 budget. With the economy likely being weaker through the remainder of 1992-93 than had been expected at the time of the February 1992 budget, it would appear that revenues will be lower for the year as a whole than had been expected at the time of the February 1992 budget. The lower revenues are related solely to cyclical factors.

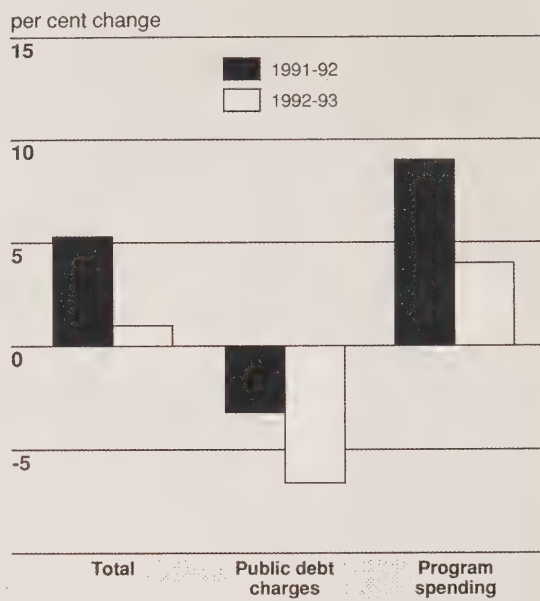
Budgetary expenditures

In the first half of 1992-93, budgetary expenditures were up 1.0 per cent on a year-over-year basis. Public debt charges, the largest single component of budgetary expenditures, declined by 6.6 per cent, reflecting the impact of declines in interest rates, especially short-term rates, through the first half of 1992-93. Despite the recent spike in interest rates, they are still expected to fall over the coming months to levels below those expected at the time of the February 1992 budget. Given the current stock and structure of the public debt, each sustained 100-basis-point decline in all interest rates should result in a decline in the deficit of about \$1.6 billion in the first full year.

Program spending advanced by \$2.1 billion or 4.0 per cent in the first half of 1992-93, compared to the same period in 1991-92, which is below the full-year increase projected in the February 1992 budget. Developments over the remaining months of

Budgetary expenditures 1991-92 and 1992-93

April to September
Year-over-year growth



1992-93 should keep these growth rates broadly in line with the February 1992 budget projections.

The increase in major transfers to persons was largely due to higher old age security benefits, reflecting increases in average benefits, which are indexed to quarterly changes in the consumer price index, and the eligible population. The increases in family allowances and veterans benefits and allowances primarily reflected higher benefits, particularly due to increases in the applicable indexation factors for benefit payments. The February 1992 budget proposed a new child tax benefit, which will amalgamate the current family benefit system programs, including family allowances, and provide additional benefits to low- and middle-income working families with children. The new enriched child tax benefit will be delivered on a monthly basis to all eligible recipients, with benefits being netted against personal income tax collections. Unemployment insurance benefit payments were up moderately, following double-digit increases throughout all of fiscal year 1991-92.

Major transfers to other levels of government were up 5.0 per cent in the first half of 1992-93, compared to the same period last year. Lower-than-expected

The Fiscal Monitor

A Publication of the Department of Finance

February 1993

Highlights of financial results for April 1992 to December 1992

- In the first nine months of fiscal year 1992-93 (April to December), the federal deficit, on a public accounts basis, amounted to \$27.2 billion, \$0.8 billion higher than that recorded in the corresponding period of 1991-92.
- The deficit results for the first nine months of 1992-93 are consistent with the deficit outlook of \$34.4 billion for the fiscal year as a whole, contained in the December 2, 1992 Economic and Fiscal Statement.

Summary

In the first nine months of fiscal year 1992-93 (April to December), the budgetary deficit was \$27.2 billion, up \$0.8 billion from the deficit recorded in the corresponding period of 1991-92. This increase in the deficit largely resulted from a pronounced sluggishness in revenue growth, up only 1 per cent in the first nine months of 1992-93, reflecting both the weakness in incomes in 1991 and the continuing sluggishness in nominal income growth in 1992. The weakness in incomes has adversely affected personal, corporate and Goods and Services Tax (GST) revenues, with all three major revenue sources reporting declines on a year-over-year basis. These declines, however, were offset by higher unemployment insurance contributions and the ending of the transitional costs associated with replacing the federal manufacturers' sales tax (FST) by the GST. The rise in the deficit was also moderated by the impact of lower interest rates on public debt charges – which declined by 6.9 per cent. Program spending rose by 4.7 per cent in the first nine months of 1992-93, reflecting the impact of cyclical factors on provincial transfers, as well as the timing of certain payments.

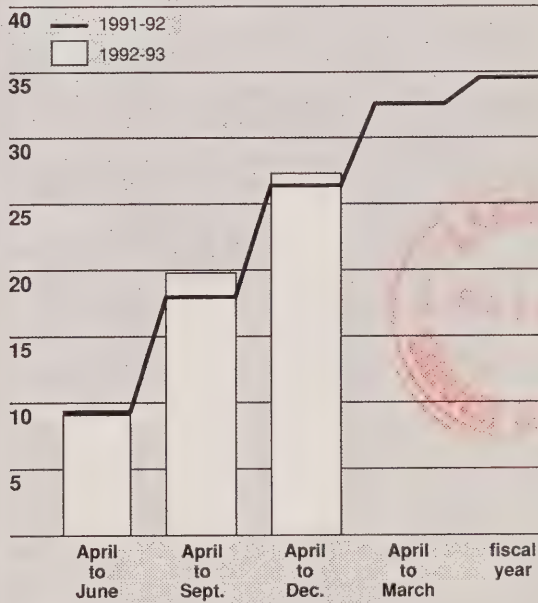
Financial requirements, excluding foreign exchange transactions, were \$30.2 billion in the first nine months of 1992-93, up \$1.5 billion from the first nine months of 1991-92. Foreign exchange transactions over the April 1992 to December 1992

period, however, provided a net source of funds amounting to \$10.3 billion, compared to \$4.7 billion in the same period last year. As a result, total financial requirements, including foreign exchange

The federal deficit 1991-92 and 1992-93

Year to date

billions of dollars



The Fiscal Monitor

Table 1

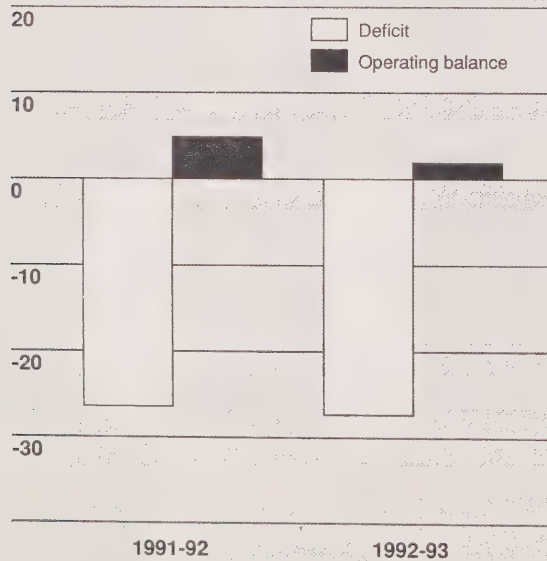
Summary statement of transactions: April to December

	1989-90	1990-91	1991-92	1992-93
	(millions of dollars)			
A. Budgetary transactions				
1. Revenues	81,086	88,831	86,072	86,903
2. Program spending	-70,678	-75,638	-81,194	-85,024
3. Operating surplus	10,408	13,193	4,878	1,879
4. Public debt charges	-29,170	-32,070	-31,265	-29,114
5. Deficit	-18,762	-18,877	-26,387	-27,235
B. Non-budgetary transactions	-389	-716	-2,292	-2,919
C. Financial requirements (excluding foreign exchange transactions)	-19,151	-19,593	-28,679	-30,154
D. Foreign exchange transactions: net source (+)/requirement (-)	30	439	4,651	10,306
E. Total financial requirements	-19,121	-19,154	-24,028	-19,848
F. Unmatured debt transactions	20,046	21,973	24,718	20,951
G. Cash balance at end of period	2,757	4,329	3,260	1,876

The deficit and the operating balance: 1991-92 and 1992-93

April to December

billions of dollars



transactions, were \$19.8 billion for the first nine months of 1992-93, down \$4.2 billion from the corresponding period in 1991-92.

In the December 1992 Economic and Fiscal Statement, the Minister of Finance indicated that the impact of the weaker-than-anticipated growth of the economy on the government's revenues was putting upward pressure on the deficit. He announced a number of spending cuts to contain the deficit slippage relative to the February 1992 budget projection of \$27.5 billion. Operating budgets of all government departments were cut by a further 2 per cent and spending on grants and contributions are to be reduced for the balance of the year. The deficit for 1992-93 is now estimated at \$34.4 billion and the year-to-date results are in line with that projection.

Budgetary revenues

During the first nine months of 1992-93, budgetary revenues increased by only 1.0 per cent on a year-over-year basis. Three major components of budgetary revenues, personal income taxes, corporate income taxes and GST revenues, were lower in the first nine months of 1992-93 as compared to the same period in 1991-92. These declines, however,

were offset by higher unemployment insurance contributions and the ending of transitional costs associated with the replacement of the federal manufacturers' sales tax with the Goods and Services Tax.

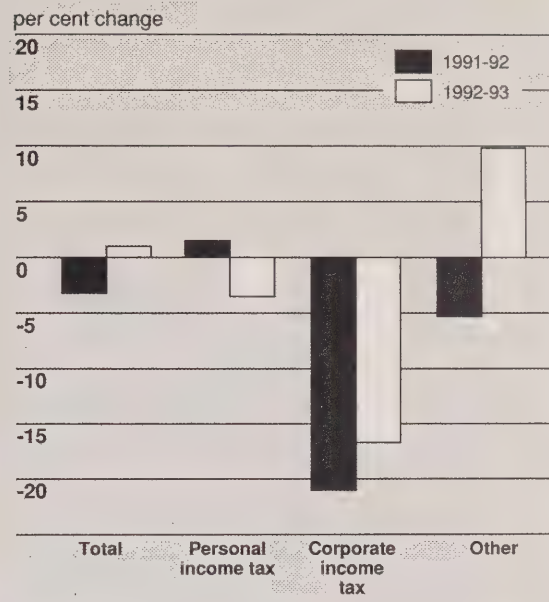
Over the period April to December 1992, personal income tax collections declined 3.5 per cent on a year-over-year basis. Most of this decline was due to the impact of lower taxes paid at the time of tax filing and substantially higher personal income tax refunds. The higher refunds and lower taxes owing at tax filing are largely related to the weakness in personal incomes in 1991. Statistics Canada currently reports that personal incomes in 1991 advanced by only 3 per cent, as declines in employment and lower inflation dampened increases in employment income, while lower interest rates and dividends resulted in a decline in investment income. In addition, unincorporated business income remained depressed. Refunds pertaining to the 1991 taxation year were largely paid out during the April to July 1992 period, while taxes owing on filing were collected in May 1992. The net impact of higher refunds and lower tax owing on filing relating to the 1991 taxation year was to reduce personal income tax revenues in the first nine months of 1992-93 by about \$3 billion.

The weakness in personal incomes observed in 1991 has continued into 1992, thereby dampening the overall increase in personal income tax collections. In addition, as part of the February 1992 budget initiatives, the federal government reduced its general surtax rate by one percentage point in July 1992.

On a year-over-year basis, corporate income tax collections, in the April to December 1992 period, were down 16.7 per cent. Most of this decline was due to higher refunds, as losses are being applied

Budgetary revenues 1991-92 and 1992-93

April to December
Year-over-year growth



against taxes paid in the past as well as taxes currently owing. Refunds were also higher due to the impact of a court decision. Furthermore, any increase in corporate profits witnessed in 1992 has yet to be reflected in taxable income and tax payable by corporations. Corporations may carry forward losses and deductions from prior years to offset taxes otherwise payable on profits generated in 1992.

Over the April to December 1992 period, net GST collections were down 4.1 per cent from those recorded in the same period last year. The

Table 2

Budgetary revenues: April to December

	1991-92	1992-93	Per cent change
	(millions of dollars)		(%)
1. Personal income tax	45,980	44,381	-3.5
2. Corporate income tax	5,705	4,752	-16.7
3. Unemployment insurance contributions	11,587	13,509	16.6
4. Goods and Services Tax	11,190	10,733	-4.1
5. Sales and excise taxes/duties	6,898	8,587	24.5
6. Other revenues	4,712	4,941	4.9
7. Total budgetary revenues	86,072	86,903	1.0

increase in this component is expected to decline rapidly over the remainder of the year, as these timing factors get unwound and the 2 per cent operating budget cut, announced in the December 2, 1992 Economic and Fiscal Statement, takes effect.

Financial requirements

Non-budgetary transactions in the first nine months of 1992-93 resulted in a net requirement of funds amounting to \$2.9 billion, compared to a requirement of \$2.3 billion recorded in the corresponding period of 1991-92. Over half of the 1992-93 requirement was due to loans to the Canada Deposit Insurance Corporation. With a deficit of \$27.2 billion and a net requirement of funds from non-budgetary transactions of \$2.9 billion, financial requirements, excluding foreign exchange transactions, amounted to \$30.2 billion, up \$1.5 billion from the requirements in 1991-92.

Foreign exchange transactions resulted in a net source of funds of \$10.3 billion, compared to a source of \$4.7 billion in the first nine months of 1991-92. Total financial requirements, therefore, amounted to \$19.8 billion in the first nine months of 1992-93, down \$4.2 billion from the 1991-92 requirements. The 1992-93 requirement was

financed through unmatured debt transactions of \$21.0 billion, resulting in an increase in cash balances of \$1.9 billion.

Debt servicing and reduction account

In June 1992, legislation to establish the Debt Servicing and Reduction Account received Royal Assent. As a result, effective April 1, 1991, all GST revenues net of the applicable rebates and credits, net proceeds from the sale of Crown corporations and gifts to the Crown identified for debt reduction are to be credited to this Account. The revenues in this Account are to be used only to pay interest on the public debt and, ultimately, the public debt. This Account, in conjunction with the Spending Control Act, which also received Royal Assent in June 1992, will ensure that GST revenues will not be used to fund new program spending.

Net GST revenues for fiscal year 1991-92 amounted to \$15,168 million. In addition, the gains on the disposal of shares in interest in Crown corporations amounted to \$2.5 million, while gifts to the Crown amounted to \$389,483.91. Net GST revenues for the first nine months of 1992-93 amounted to \$10.7 billion. Gifts to the Crown in the first nine months of 1992-93 amounted to \$52,086.65.

Table 4

Debt servicing and reduction account

	Fiscal year 1991-92	April – December 1992-93
	(millions of dollars)	
Net GST revenues	15,168	10,733
Net proceeds from privatization/private remittance	3	—
Total proceeds	15,171	10,733

The information in this Monitor is based on financial results for the nine months ended December 31, 1992. For further information contact: P. DeVries at 996-7397. Cet imprimé est également offert en français.



year-to-date decline in GST revenues largely reflects the impact of certain timing adjustments and technical factors, which resulted in an overstatement of collections in the first half of 1991-92. In addition, the harmonization of the sales tax system with the province of Québec has resulted in a one-time delay in the receipt of collections from that province. Although this negatively affected the year-to-date collections results, it should have no impact on the final results for the year as a whole, as appropriate adjustments are expected to be made in the 1992-93 Supplementary Period. Net collections to date have also been dampened by a higher payout of the low-income GST Credit and the impact of weakness in the growth in consumer spending.

Dampening the impact of the year-over-year declines in personal, corporate, and GST revenues is the ending of rebates relating to federal sales tax paid on new and unused inventory as of December 31, 1990 and higher unemployment insurance contributions. More specifically, the repayment in 1991 of FST paid on goods in inventory as of December 31, 1990 significantly dampened revenues in this component in 1991-92. The increase in unemployment insurance contributions reflects the impact of increases in maximum insurable earnings subject to unemployment insurance contributions and the July 1991 and January 1992 increases in premium rates. The increases in premium rates were introduced to ensure the financial integrity of the Unemployment Insurance Account.

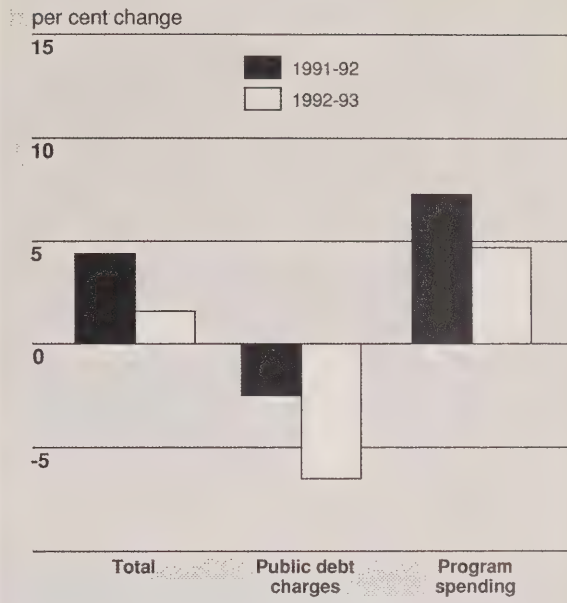
Budgetary expenditures

In the first nine months of 1992-93, budgetary expenditures were up 1.5 per cent on a year-over-year basis. Public debt charges, the largest single component of budgetary expenditures, declined by 6.9 per cent, reflecting the impact of declines in interest rates, especially short-term rates. Given the current stock and structure of the public debt, each sustained 100-basis-point decline in all interest rates should result in a decline in the deficit of about \$1.6 billion in the first full year.

Program spending advanced by 4.7 per cent in the first nine months of 1992-93, compared to the same period in 1991-92. Program spending is expected to be significantly restrained in the final quarter of the current fiscal year, as the restraint measures announced in the December 2, 1992 Economic and Fiscal Statement take effect. The measures include a 2 per cent reduction in departmental operating budgets, as well as reductions in spending on grants

Budgetary expenditures 1991-92 and 1992-93

April to December
Year-over-year growth



and contributions. In addition, program spending will be affected in the final quarter of the fiscal year by the replacement of the family allowance benefit by the new monthly Child Tax Benefit.

Major transfers to persons increased by 4.8 per cent, largely due to higher old age security and unemployment insurance benefits. The increase in old age security benefits reflects increases in average benefits, which are indexed to quarterly changes in the consumer price index, and the eligible population. Unemployment insurance benefit payments were up moderately, following double-digit increases throughout all of fiscal year 1991-92. The February 1992 budget proposed a new child tax benefit, which will amalgamate the current family benefit system programs, including family allowances, and provide additional benefits to low- and middle-income working families with children. The new enriched child tax benefit will be delivered on a monthly basis, beginning in January 1993, to all eligible recipients, with benefits being netted against personal income tax collections.

Major transfers to other levels of government were up 7.0 per cent in the first nine months of 1992-93, compared to the same period last year. Lower-than-expected growth in the applicable tax bases in 1990

Table 3

Budgetary expenditures: April to December

	1991-92	1992-93	Per cent change
	(millions of dollars)		(%)
A. Major transfers to persons of which:	29,475	30,903	4.8
Unemployment insurance program payments	12,666	13,375	5.6
Old age security benefits	13,700	14,263	4.1
Family allowances	2,097	2,182	4.1
B. Major transfers to other levels of government of which:	18,451	19,745	7.0
Established Programs Financing ¹	5,802	6,693	15.4
Fiscal transfers	7,522	7,311	-2.8
Canada Assistance Plan	5,127	5,741	12.0
C. Major subsidies and other transfers of which:	6,590	6,631	0.6
Agricultural subsidies	1,970	1,760	-10.6
Indian and Inuit programs	1,994	2,174	9.0
Science and technology	829	881	6.3
D. Major payments to Crown corporations of which:	3,324	3,348	0.7
Canada Mortgage and Housing Corporation	1,322	1,414	7.0
Canadian Broadcasting Corporation	814	931	14.4
E. Defence	7,419	7,621	2.7
F. International Assistance	1,567	1,581	0.9
G. Other program spending	14,368	15,195	5.8
H. Total program expenditures	81,194	85,024	4.7
I. Public debt charges	31,265	29,114	-6.9
J. Total budgetary expenditures	112,459	114,138	1.5

¹ Cash portion only. Total EPF cash and tax transfers are up 1.1 per cent in 1992-93.

and 1991 has resulted in higher cash payments under Established Programs Financing (EPF) and has moderated the growth in fiscal transfers, primarily equalization payments to lower-income provinces. Under the Expenditure Control Plan, first introduced in the February 1990 budget and extended in the February 1991 budget, total EPF entitlements to provinces are limited to reflect changes in population only, implying a growth of about 1 per cent. EPF entitlements are paid in the form of tax point transfers and cash. The increase in cash transfers in the first nine months of 1992-93 reflected the downward revisions to the applicable taxes, which lowered the value of both prior-year and current year tax point transfers. The increase in Canada Assistance Plan transfers primarily relates to recoveries in 1991-92 for overpayments to non-equalization receiving provinces and increased transfers due to higher welfare case loads. Growth in this program is expected to moderate significantly in the final quarter of 1992-93 as the transfer cap on the non-equalization receiving provinces becomes effective.

Spending on subsidies and other major transfers was virtually unchanged on a year-over-year basis, as increased transfers to Indian and Inuit peoples and science and technology was offset by lower payments under the various agricultural subsidy programs. The increase in payments to Crown Corporations was largely due to higher payments to the Canadian Broadcasting Corporation and Canada Mortgage and Housing Corporation. Defence spending was up 2.7 per cent, while International Assistance transfers increased by 0.9 per cent. Other program spending increased by 5.8 per cent in the first nine months of 1992-93 compared to the same period last year. Part of this increase reflects the impact of the wage strategy, announced in the February 1991 budget, which froze wages in the first year of any new contract (for most contracts, this was June 1991) and set the second year increase at 3 per cent. In addition, the payments and receipts to date to revolving funds and other adjustments are substantially higher in 1992-93 than in 1991-92, reflecting the timing of these payments and receipts. The year-over-year

The Fiscal Monitor

A Publication of the Department of Finance

June 1993

Highlights of financial results for April 1992 to March 1993

- The deficit for the period April 1992 to March 1993, prior to standard supplementary period accounting adjustments, was \$34.8 billion.
- Full-year deficit results for 1992-93 will not be available until the supplementary period adjustments are fully incorporated into the financial data. The deficit for the year as a whole is expected to be \$35.5 billion. Preliminary financial results for 1992-93 will be available in late summer.
- Financial requirements, including foreign exchange transactions, amounted to \$26.3 billion in 1992-93, down \$4.4 billion from 1991-92.

Summary

Over the period April 1992 to March 1993, the budgetary deficit was \$34.8 billion. These results, however, are not the full-year deficit results for fiscal year 1992-93. Still to be determined are the standard accounting adjustments recorded in the "supplementary period". Consistent with government accounting principles, these "supplementary period" adjustments primarily reflect the recording of the costs of goods and services provided to the government prior to the end of March. Adjustments are also made to budgetary revenues, primarily to reflect cash in transit at year end.

The year-to-date deficit results are up \$3.2 billion from the deficit recorded in the corresponding period of 1992-93. The increase in the deficit resulted in part from a decline in budgetary revenue growth, reflecting both the impact of the lagged weakness in incomes in 1991 and the continuing sluggishness in nominal income growth in 1992. The weakness in incomes has adversely affected personal and corporate income tax collections, as well as Goods and Services Tax (GST) revenues, with all three

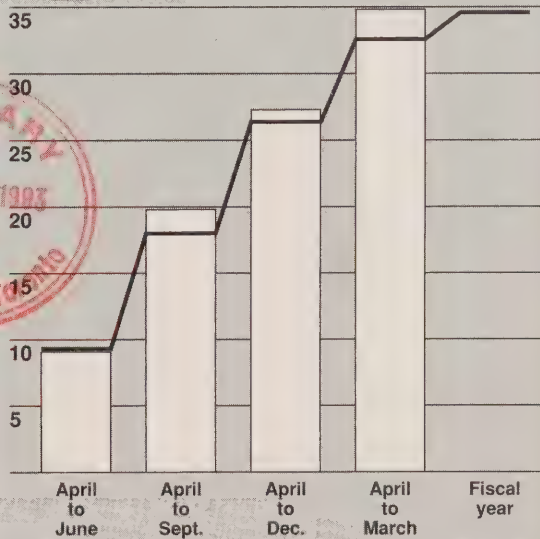
The federal deficit
1991-92 and 1992-93

Year to date

billions of dollars

40 — 1991-92

□ 1992-93



The Fiscal Monitor

Table 1

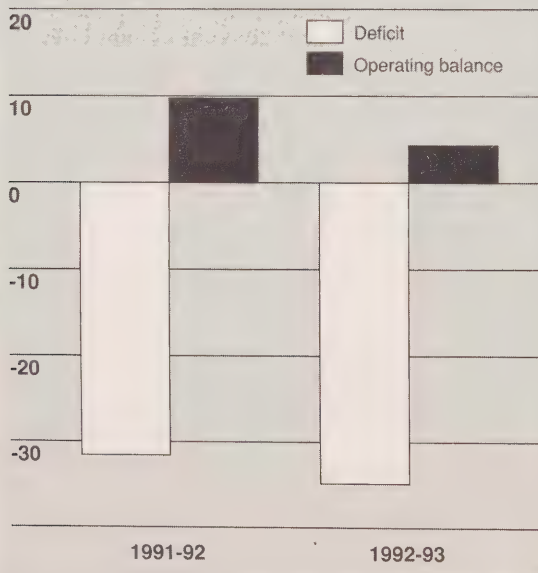
Summary statement of transactions: April to March

	1988-89	1989-90	1990-91	1991-92	1992-93
	(millions of dollars)				
A. Budgetary transactions					
1. Revenues	102,045	112,941	119,329	121,073	120,440
2. Program spending	-93,102	-98,123	-104,218	-111,354	-116,043
3. Operating surplus	8,943	14,818	15,111	9,719	4,397
4. Public debt charges	-33,223	-38,782	-42,675	-41,275	-39,148
5. Deficit	-24,280	-23,964	-27,564	-31,556	-34,751
B. Non-budgetary transactions	2,174	3,638	3,098	-89	701
C. Financial requirements (excluding foreign exchange transactions)	-22,106	-20,326	-24,466	-31,645	-34,050
D. Foreign exchange transactions: net source (+)/requirement (-)	-5,379	-718	-4,900	942	7,702
E. Total financial requirements	-27,485	-21,044	-29,366	-30,703	-26,348
F. Unmatured debt transactions	27,970	20,747	30,523	29,017	28,807
G. Cash balance at end of period	2,020	1,534	2,666	882	3,232

The deficit and the operating balance: 1991-92 and 1992-93

April to March

billions of dollars



major revenue sources recording declines on a year-over-year basis. The year-over-year decline in budgetary revenues would have been larger had it not been for the ending of certain transitional costs associated with replacing the federal manufacturers' sales tax (FST) by the GST, which dampened revenues in 1991-92. The rise in the deficit was moderated by the impact of lower interest rates on public debt charges – which declined by 5.2 per cent. Program spending rose by 4.2 per cent over the April 1992 to March 1993 period, largely reflecting the impact of cyclical factors and prior-year adjustments on certain transfers.

As indicated in the April 1993 budget, the budgetary deficit for the year as a whole is estimated at \$35.5 billion. This implies that the 1992-93 supplementary period deficit cannot exceed \$0.7 billion. In 1991-92, the deficit in the supplementary period was \$3 billion. The supplementary period for fiscal year 1992-93 is expected to show a significant improvement over last year, in part due to the discretionary actions the government took in the December 1992 Economic and Fiscal Statement. These include the reductions in operating budgets and in grants and contributions, as

well as the one-time adjustment to the government's liability to employee pensions due to the effect of the two-year wage freeze. Due to remittance procedure changes during 1992-93, certain revenues were received in late March but not deposited with the Receiver General until April. Such revenues will be recorded in the supplementary period. In addition, the stock of receivables is expected to be significantly higher in 1992-93, due to overpayments to equalization-receiving provinces resulting from census adjustments, while liabilities at year end are expected to be lower. The net impact of these developments on the deficit outcome for 1992-93 will not be known until late summer, when the supplementary period adjustments are completed and audited.

Financial requirements are largely unaffected by the "supplementary period" adjustments. Preliminary results for fiscal year 1992-93 indicate that financial requirements, excluding foreign exchange transactions, were \$34.1 billion, down from the April 1993 budget estimate of \$34.4 billion. Foreign exchange transactions in 1992-93 resulted in a net source of funds amounting to \$7.7 billion, compared to a net source of \$0.9 billion in the same period last year. As a result, total financial requirements, including foreign exchange transactions, were \$26.3 billion in 1992-93, \$4.4 billion lower than that recorded in 1991-92. Unmatured debt transactions amounted to \$28.8 billion in 1992-93, down \$0.2 billion from 1991-92. Cash balances at year end increased by \$2.4 billion to \$3.2 billion.

Budgetary revenues

Budgetary revenues over the April 1992 to March 1993 period declined by 0.5 per cent from the same period last year. The weakness in nominal income growth in 1992, up only 1.9 per cent from 1991, coupled with substantially lower taxes owing at filing and higher refunds with respect to the 1991 taxation year, were the major factors contributing to the decline in budgetary revenues. In addition, the reductions in the personal income tax surtax and the introduction of the child tax benefit also served to reduce revenues in 1992-93. The decline in budgetary revenues was dampened by higher unemployment insurance contributions and the ending of transitional costs associated with the replacement of the federal manufacturers' sales tax with the Goods and Services Tax.

Over the period April 1992 to March 1993, personal income tax collections declined 5.0 per cent on a year-over-year basis. Most of this decline was due to the impact of lower taxes paid at the time of tax filing and substantially higher personal income tax refunds, relating to the weakness in personal incomes in 1991. Refunds pertaining to the 1991 taxation year were largely paid out during the April to July 1992 period, while taxes owing on filing were recorded in May 1992. Statistics Canada currently reports that personal incomes in 1991 advanced by only 3 per cent, as declines in employment and lower inflation dampened increases in employment income, while lower interest rates and dividends resulted in a decline in investment income. In addition, unincorporated business income remained depressed. The net impact of higher refunds and lower tax owing on filing relating to the 1991 taxation year was to reduce personal income tax revenues in 1992-93 by about \$3 billion. Recoveries from the Provincial Tax Collection Account, resulting from overpayments in previous taxation years, served to offset some of the negative impact of these factors on personal income tax collections.

Budgetary revenues 1991-92 and 1992-93

April to March
Year-over-year growth

per cent change

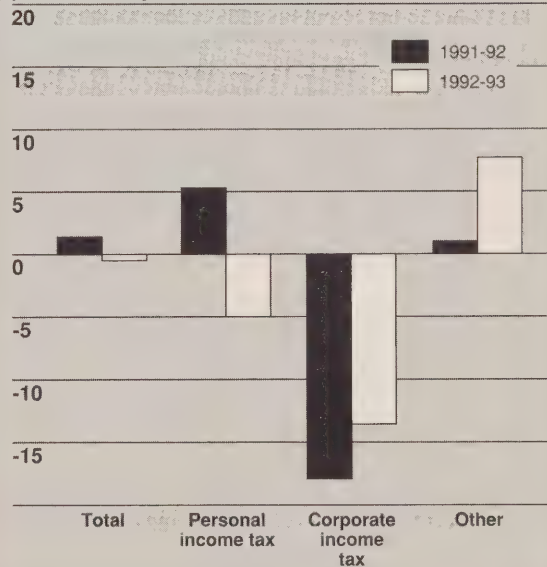


Table 2

Budgetary revenues: April to March

	1991-92	1992-93	Per cent change
	(millions of dollars)		(%)
1. Personal income tax	62,702	59,577	-5.0
2. Corporate income tax	9,069	7,837	-13.6
3. Unemployment insurance contributions	15,544	17,721	14.0
4. Goods and Services Tax	14,365	14,033	-2.3
5. Sales and excise taxes/duties	9,877	10,947	10.8
6. Other revenues	1,161	1,416	22.0
7. Non-tax revenues	8,355	8,909	6.6
8. Total budgetary revenues	121,073	120,440	-0.5

The weakness in personal incomes observed in 1991 has continued into 1992, thereby dampening the overall increase in personal income tax collections. In addition, as part of the February 1992 budget initiatives, the federal government reduced its general surtax rate by one percentage point in July 1992 and by a further one percentage point in January 1993. These reductions in the surtax reduced personal income tax collections by about \$0.5 billion over the July 1992 to March 1993 period. Also in the February 1992 budget, the government announced a restructuring of the child benefit system. Effective January 1993, the monthly family allowance, the refundable child tax credit and the non-refundable dependent child tax credit were replaced by an enhanced child tax benefit, that incorporates an earned-income supplement for low- and middle-income working families with children. The child tax benefit is paid monthly. As it represents a reduction in taxes otherwise payable, it is netted against personal income tax revenues. The child tax benefit reduced personal income tax collections by about \$0.9 billion in the January 1993 to March 1993 period.

On a year-over-year basis, corporate income tax collections, in the April 1992 to March 1993 period, were down by 13.6 per cent. Most of this decline was due to higher refunds, as losses are being applied against taxes paid in the past as well as taxes currently owing. Refunds were also higher due to the impact of a court decision. Furthermore, any increase in corporate profits witnessed in 1992 has yet to be reflected in taxable income and tax payable by

corporations. Corporations may carry forward losses and deductions from prior years to offset taxes otherwise payable on profits generated in 1992.

Over the April 1992 to March 1993 period, net GST collections were down 2.3 per cent from those recorded in the same period last year. The year-to-date decline in GST revenues largely reflects the impact of certain timing adjustments and technical factors, which resulted in an overstatement of collections in the first half of 1991-92. In addition, the harmonization of the sales tax system with the province of Québec has resulted in a one-time delay in the receipt of collections from that province. Although this affected the year-to-date collections results negatively, it should have no impact on the final results for the year as a whole, as appropriate adjustments are expected to be made in the 1992-93 supplementary period. Net collections to date have also been dampened by a higher payout of the low-income GST Credit and the impact of weakness in consumer spending.

Dampening the impact of the year-over-year declines in personal, corporate, and GST revenues was the ending of rebates relating to federal sales tax (FST) paid on new and unused inventory as of December 31, 1990 and higher unemployment insurance contributions. More specifically, the repayment in 1991 of FST paid on goods in inventory as of December 31, 1990 significantly dampened revenues in this component in 1991-92. The increase in unemployment insurance contributions reflects the impact of increases in maximum insurable earnings

subject to unemployment insurance contributions and the July 1991 and January 1992 increases in premium rates. The increases in premium rates were introduced to ensure the financial integrity of the Unemployment Insurance Account.

Other tax revenues, consisting primarily of the non-resident tax, increased by 22.0 per cent, while non-tax revenues, consisting of return on investments and other non-tax revenues increased by 6.6 per cent.

In the April 1993 budget, budgetary revenues for the year as a whole, were estimated to increase by 0.7 per cent in 1992-93. The results to date, coupled with the expected supplementary period adjustments, should ensure that the April 1993 budget estimate is achieved.

Budgetary expenditures

Over the twelve-month period, April 1992 to March 1993, budgetary expenditures were up 1.7 per cent on a year-over-year basis. Public debt charges, the largest single component of budgetary expenditures, declined by 5.2 per cent, reflecting the impact of declines in interest rates, especially short-term rates. Given the current stock and structure of the public debt, each sustained 100-basis-point decline in all interest rates should result in a decline in the deficit of about \$1.8 billion in the first full year.

Program spending advanced by 4.2 per cent in the April 1992 to March 1993 period, compared to the same period in 1991-92. The increase was largely attributable to higher payments to provinces in the final quarter of 1992-93 primarily relating to prior-year adjustments. Restraining the overall increase in program spending were the restraint measures announced in the December 2, 1992 Economic and Fiscal Statement. The measures include a 2 per cent reduction in departmental operating budgets, as well as reductions in spending on grants and contributions. In addition, program spending was affected in the final quarter of the fiscal year by the replacement of the family allowance benefit with the new monthly child tax benefit.

Major transfers to persons increased by 1.9 per cent, largely due to higher old age security and unemployment insurance benefits. The increase in

old age security benefits reflects increases in average benefits, which are indexed to quarterly changes in the consumer price index, and the eligible population. Unemployment insurance benefit payments were up moderately, following double-digit increases throughout all of fiscal year 1991-92. The introduction of the new child tax benefit, effective January 1993, replaced the monthly family allowance benefit payment, thereby accounting for the year-over-year decline in that component.

Major transfers to other levels of government were up 10.9 per cent on a year-over-year basis. The federal government provides transfers to provinces through the Established Programs Financing (EPF) program in support of health and post-secondary education. EPF entitlements are paid in the form of tax point transfers and cash. Under the Expenditure Control Plan, first introduced in the February 1990 budget and extended in the February 1991 budget, total EPF entitlements to provinces, over the 1990-91 to 1994-95 period, are limited to reflect changes in population only, implying a growth of about 1 per cent. Over the April 1992 to March 1993 period, cash transfers under Established Programs Financing (EPF) were up 26.8 per cent, compared to the same period last year. Most of the increase in cash transfers in 1992-93 reflects the downward revisions to the estimates of personal and corporate income tax yields in 1990 and 1991, which lowered the value of both prior-year and current-year tax point transfers. In addition, prior-year adjustments due to higher population estimates resulting from the 1991 census further increased cash transfers in the final quarter of 1992-93.

Under the Canada Assistance Plan (CAP), the federal government shares the cost of provincial income maintenance and social services programs on a fifty-fifty basis. Under the Expenditure Control Plan, CAP transfers to Ontario, Alberta, and British Columbia are limited to a 5 per cent annual growth for the period 1990-91 to 1994-95. The increase in CAP transfers in 1992-93 primarily relates to higher welfare case loads.

Fiscal transfers include Equalization, transfers to the territorial governments, grants to provincial and municipal governments in lieu of taxes, and Statutory and Stabilization programs, as well as transfers under

Table 4

Debt Servicing and Reduction Account

	Fiscal year 1991-92	April 1992 to March 1993
	(millions of dollars)	
Net GST revenues	15,168	14,033
Net proceeds from privatization/private remittance	3	110
Total proceeds	15,171	14,143

Account are to be used only to pay interest on the public debt and, ultimately, the public debt. This Account, in conjunction with the *Spending Control Act*, which also received Royal Assent in June 1992, will ensure that GST revenues will not be used to fund new program spending.

Net GST revenues for fiscal year 1991-92 amounted to \$15,168 million. In addition, the gains on the disposal of shares on interest in Crown corporations amounted to \$2.5 million, while gifts to the Crown amounted to \$389,483.91. Net GST revenues for the April 1992 to March 1993 period were \$14,033 million. Net proceeds from the sale of shares in Crown corporations amounted to \$110.2 million, while gifts to the Crown amounted to \$99,293.70.

The information in this Monitor is based on financial results to the end of March 1993. For further information contact: P. DeVries at 996-7397. Cet imprimé est également offert en français.



Monthly Fiscal Monitor

A Publication of the Department of Finance

June 1993

Highlights of the financial results for April 1993

The deficit in April 1993 was estimated at \$6.0 billion, up \$1.9 billion from April 1992.

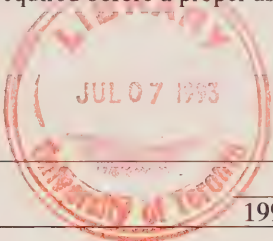
The increase in the deficit, on a year-over-year basis, was attributable to lower budgetary revenues, down \$2 billion from April 1992.

- Most of this decline was due to the faster processing of personal income tax refunds, up \$1.5 billion from April 1992. The netting of the Child Tax Benefit and the reductions in the personal income surtax also served to lower personal income tax collections in April 1993.
- The quarterly payment of the low-income GST credit, coupled with higher refunds, resulted in negative GST collections in April 1993. April is the lowest month for GST collections, as revenues received in early April are credited to the previous fiscal year.
- Corporate income tax collections were lower due to higher refunds, while the decline in excise taxes and duties reflects the impact of tariff reductions under the Canada-U.S. Free Trade Agreement.
- The above developments should not adversely affect the expected outcome for the year as a whole.

Program spending was lower in April 1993 than in April 1992, reflecting lower unemployment insurance benefits and the elimination of family allowance payments due to the introduction of the Child Tax Benefit. Public debt charges were virtually unchanged.

Monthly figures can exhibit wide fluctuations, given the uneven timing of certain payments and receipts and the effective dates of policy measures. At least four months of data are required before a proper assessment of the current year's results can be made.

Table 1
Government of Canada
Summary statement of financial transactions¹



	April	
	1992	1993
	(in millions of dollars)	
Budgetary transactions		
Revenues	7,481	5,500
Program spending	-8,345	-8,252
Operating balance	-864	-2,752
Public debt charges	-3,264	-3,274
Deficit	-4,128	-6,026
Non-budgetary transactions	-1,359	-31
Financial requirements (excluding foreign exchange transactions)	-5,487	-6,057
Foreign exchange transactions	1,916	-856
Financial requirements	-3,571	-6,913
Unmatured debt transactions	4,642	5,534

Note: Data compiled by the Receiver General of Canada.

¹ (+) indicates a source of funds, while (-) indicates a requirement for funds.

Monthly Fiscal Monitor

Table 2
Government of Canada
Detailed statement of budgetary transactions

	April	
	1992	1993
	(in millions of dollars)	
Revenues		
Personal income tax	4,296	2,725
Corporate income tax	460	266
Unemployment insurance contributions	1,463	1,512
Non-resident tax	86	109
Total income tax	6,305	4,612
Excise taxes and duties		
Goods and Services Tax	140	-31
Customs import duties	411	301
Excise taxes and duties	283	198
Total excise taxes and duties	834	468
Other tax revenue	41	37
Total tax revenue	7,180	5,117
Non-tax revenue	301	383
Total budgetary revenues	7,481	5,500
Expenditures		
Transfer payments		
To persons –		
Elderly benefits	1,516	1,578
Unemployment insurance benefits	1,776	1,593
Other	367	125
Total	3,659	3,296
To other levels of government –		
Established Programs Financing	670	780
Fiscal transfers	787	785
Canada Assistance Plan	541	604
Total	1,999	2,169
To other		
Agriculture	216	27
Indian and Inuits	551	575
Regional development	52	7
Science and technology	59	61
International assistance	82	93
Other	127	236
Total	1,087	999
Total transfers	6,744	6,462
Payments to Crown corporations	450	436
Operating and capital expenditures		
Defence	337	477
All other departmental expenditures	814	875
Total	1,151	1,352
Total program spending	8,345	8,252
Public debt charges	3,264	3,274
Total budgetary expenditures	11,609	11,526

Table 3
Government of Canada
Non-budgetary transactions

	April	
	1992	1993
	(in millions of dollars)	
Loans, investments, and advances		
Crown corporations	-512	372
Other	-50	-7
Total	-562	365
Specified purpose accounts		
Canada Pension Plan Account	578	548
Superannuation accounts	-217	-182
Other	-485	-969
Total	-124	-603
Other transactions	-673	-207
Total non-budgetary transactions	-1,359	-31

Table 4
Government of Canada
Foreign exchange and unmatured debt transactions

	April	
	1992	1993
	(in millions of dollars)	
Foreign exchange transactions		
Net international reserves	1,923	-1,051
Unmatured debt transactions payable in foreign currencies	-7	195
Total	1,916	-856
Unmatured debt transactions		
Marketable bonds	-	1,974
Canada Savings Bonds	-472	-445
Treasury bills	4,950	3,850
Other	8	194
Sub-total	4,470	5,573
<i>Less:</i>		
Government's holding of unmatured debt	165	156
Unmatured debt transactions payable in foreign currencies	7	-195
Sub-total	172	-39
Total unmatured debt transactions payable in Canadian dollars	4,642	5,534

Monthly Fiscal Monitor

Table 5
Government of Canada
Cash, unmatured debt and debt balances

	April	
	1992	1993
	(in millions of dollars)	
Cash balances at end of period		
In Canadian dollars	1,805	1,470
In foreign currencies	146	44
Total cash balance	1,951	1,514
Unmatured debt balance		
Payable in Canadian dollars –		
Marketable bonds	158,056	178,439
Canada Savings Bonds	35,126	34,369
Treasury bills	157,250	162,050
Other	3,500	3,505
Sub-total	353,932	378,363
Less:		
Government's holdings of unmatured debt	883	1,034
Total	353,049	377,329
Payable in foreign currencies –		
Marketable bonds	3,414	2,858
Notes and loans	0	0
Canada bills	0	2,552
Sub-total	3,414	5,410
Less:		
Government's holdings of unmatured debt	0	0
Total unmatured debt	356,463	382,739

The *Monthly Fiscal Monitor* will be published for the first two months of each quarter. It replaces the *Financial Results*.
The *Quarterly Fiscal Monitor* will continue to be published for the final month of each quarter.



Department of Finance
Canada

Ministère des Finances
Canada

For further information contact: P. DeVries at 996-7397.
Cet imprimé est également offert en français.

Monthly Fiscal Monitor

A Publication of the Department of Finance

July 1993

Highlights of the financial results for May 1993

The deficit in May 1993 was estimated at \$2.3 billion, up \$1.7 billion from May 1992. This increase was attributable to the faster processing of personal income tax refunds, up \$2.1 billion from May 1992, which should not adversely affect the deficit outcome for the year as a whole.

In the first two months of 1993-94, the deficit amounted to \$8.3 billion, up \$3.6 billion on a year-over-year basis. All of the increase in the deficit was attributable to lower budgetary revenues, down \$3.9 billion from the April-May 1992 period.

- Personal income tax collections were down \$3.8 billion, reflecting the faster processing of personal income tax refunds to date, compared to the same period last year. On a year-over-year basis, personal income tax refunds are up \$3.6 billion. This is entirely due to delays in processing tax returns in April and May 1992 and should not adversely affect personal income tax collections for the year as a whole. The netting of the Child Tax Benefit and the reductions in the personal income surtax also served to lower personal income tax collections in April and May 1993.
- Excise tax and duties were down 8.7 per cent, primarily due to lower customs import duties, reflecting the impact of tariff reductions under the Canada-U.S. Free Trade Agreement and to reduced domestic sales of tobacco products.

(Continued on page 4)

Table 1
Government of Canada
Summary statement of financial transactions¹

	May		April to May	
	1992	1993	1992-93	1993-94
	(in millions of dollars)			
Budgetary transactions				
Revenues	11,330	9,389	18,811	14,890
Program spending	-8,561	-8,447	-16,905	-16,699
Operating balance	2,769	942	1,906	-1,809
Public debt charges	-3,334	-3,246	-6,598	-6,520
Deficit	-565	-2,304	-4,692	-8,329
Non-budgetary transactions	769	653	-589	621
Financial requirements (excluding foreign exchange transactions)	204	-1,651	-5,281	-7,708
Foreign exchange transactions	554	920	2,469	64
Financial requirements	758	-731	-2,812	-7,644
Unmatured debt transactions	-730	1,523	3,912	7,058

Note: Data compiled by the Receiver General of Canada.

¹ (+) indicates a source of funds, while (-) indicates a requirement for funds.

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Table 2
Government of Canada
Detailed statement of budgetary transactions

	May		April to May	
	1992	1993	1992-93	1993-94
	(in millions of dollars)			
Revenues				
Personal income tax	6,971	4,785	11,267	7,510
Corporate income tax	246	525	705	791
Unemployment insurance contributions	1,503	1,533	2,966	3,045
Non-resident tax	90	92	176	201
Total income tax	8,810	6,935	15,114	11,547
Excise taxes and duties				
Goods and Services Tax	1,185	1,297	1,325	1,266
Customs import duties	366	240	649	438
Excise taxes and duties	606	654	1,017	955
Total excise taxes and duties	2,157	2,191	2,991	2,659
Other tax revenue	20	24	60	61
Total tax revenue	10,987	9,150	18,165	14,267
Non-tax revenue	343	239	646	623
Total budgetary revenues	11,330	9,389	18,811	14,890
Expenditures				
Transfer payments to:				
Persons –				
Elderly benefits	1,572	1,642	3,088	3,219
Unemployment insurance benefits	1,246	1,561	3,022	3,154
Other	203	127	719	248
Total	3,021	3,330	6,829	6,621
Other levels of government –				
Established Programs Financing	686	780	1,357	1,559
Fiscal transfers	831	821	1,618	1,661
Canada Assistance Plan	597	507	1,139	1,111
Total	2,114	2,108	4,114	4,331
Other				
Agriculture	292	48	508	75
Indian and Inuits	181	273	732	848
Regional development	40	23	92	30
Science and technology	65	48	124	109
International assistance	140	126	222	219
Other	528	322	503	507
Total	1,246	840	2,181	1,788
Total transfers	6,381	6,278	13,125	12,740
Payments to Crown corporations	312	291	761	727
Operating and capital expenditures				
Defence	678	680	1,015	1,156
All other departmental expenditures	1,190	1,200	2,004	2,076
Total	1,868	1,880	3,019	3,232
Total program spending	8,561	8,447	16,905	16,699
Public debt charges	3,334	3,246	6,598	6,520
Total budgetary expenditures	11,895	11,693	23,503	23,219

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Table 3
Government of Canada
Non-budgetary transactions

	May		April to May	
	1992	1993	1992-93	1993-94
(in millions of dollars)				
Loans, investments, and advances				
Crown corporations	-97	5	-609	377
Other	-20	-49	-70	-57
Total	-117	-44	-679	320
Specified purpose accounts				
Canada Pension Plan Account	213	607	791	1,154
Superannuation accounts	-87	-170	-304	-352
Other	—	-44	-484	-1,012
Total	126	393	3	-210
Other transactions	760	304	87	511
Total non-budgetary transactions	769	653	-589	621

Table 4
Government of Canada
Foreign exchange and unmatured debt transactions

	May		April to May	
	1992	1993	1992-93	1993-94
(in millions of dollars)				
Foreign exchange transactions				
Net international reserves	713	1,015	2,635	-36
Unmatured debt transactions payable in foreign currencies	-159	-95	-166	100
Total	554	920	2,469	64
Unmatured debt transactions				
Marketable bonds	3,440	1,600	3,441	3,575
Canada Savings Bonds	-237	-191	-709	-636
Treasury bills	-4,250	-50	700	3,800
Other	3	-96	-5	98
Sub-total	-1,044	1,263	3,427	6,837
<i>Less:</i>				
Government's holding of unmatured debt	155	165	319	321
Unmatured debt transactions payable in foreign currencies	159	95	166	-100
Sub-total	314	260	485	221
Total unmatured debt transactions payable in Canadian dollars	-730	1,523	3,912	7,058

Monthly Fiscal Monitor

Table 5
Government of Canada
Cash, unmatured debt and debt balances

	At May 31	
	1992-93	1993-94
	(in millions of dollars)	
Cash balances at end of period		
In Canadian dollars	1,659	2,253
In foreign currencies	215	41
Total cash balance	1,874	2,294
Unmatured debt balance		
Payable in Canadian dollars –		
Marketable bonds	161,662	182,040
Canada Savings Bonds	34,889	33,733
Treasury bills	153,000	165,850
Other	3,503	3,503
Sub-total	353,054	385,126
Less:		
Government's holdings of unmatured debt	730	714
Total	352,324	384,412
Payable in foreign currencies –		
Marketable bonds	3,278	2,858
Notes and loans	0	0
Canada bills	0	2,652
Sub-total	3,278	5,510
Less:		
Government's holdings of unmatured debt	0	0
Total unmatured debt	355,602	389,922

(Continued from page 1)

In contrast, program spending was 1.2 per cent lower in April-May 1993 than in April-May 1992, reflecting the elimination of family allowance payments due to the introduction of the Child Tax Benefit and the restraint measures introduced in the December 1992 Economic and Fiscal Statement. Lower interest rates resulted in a decline in public debt charges.

Monthly figures can exhibit wide fluctuations, given the uneven timing of certain payments and receipts and the effective dates of policy measures. At least four months of data are required before a proper assessment of the current year's results can be made.

The *Monthly Fiscal Monitor* will be published for the first two months of each quarter. It replaces the *Financial Results*. The *Quarterly Fiscal Monitor* will continue to be published for the final month of each quarter.



Quarterly Fiscal Monitor

A Publication of the Department of Finance

August 1993

Highlights of financial results for April 1993 to June 1993

- The deficit in June 1993 was estimated at \$4.0 billion, down \$0.2 billion from June 1992. Nearly all of the year-over-year improvement was due to lower program spending, as budgetary revenues were virtually unchanged and public debt charges were marginally higher.
- The deficit in the first quarter of fiscal year 1993-94 (April to June), on a public accounts basis, amounted to \$12.3 billion, \$3.5 billion higher than that recorded in the corresponding period of 1992-93.
- The increase in the deficit, on a year-to-date basis, was attributable to the timing of personal income tax refunds and transitional costs associated with the restructuring of the child benefit system. These factors will not adversely affect the April 1993 budget deficit outlook for 1993-94.
- In addition, expenditure reduction measures taken in the December 1992 Economic and Fiscal Statement and the April 1993 budget should result in an improvement in the deficit as the year progresses.

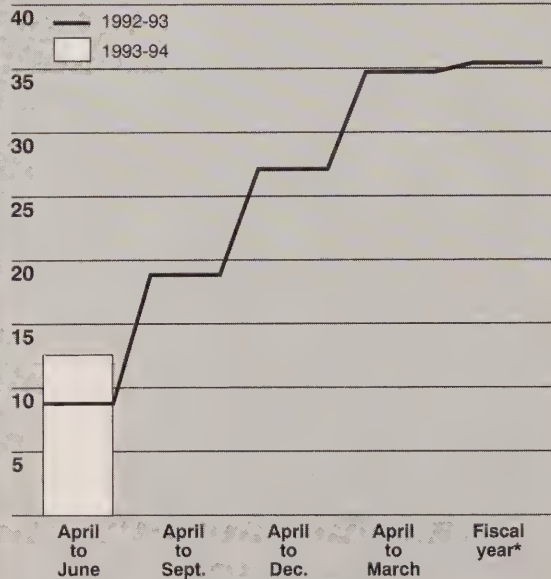
Summary

In the first quarter of fiscal year 1993-94 (April to June), the budgetary deficit was \$12.3 billion, \$3.5 billion higher than that recorded in the corresponding period of 1992-93. This increase in the deficit, on a year-over-year basis, primarily resulted from the timing of personal income tax refunds. Systems processing changes in the first quarter of 1992-93 delayed refunds for the 1991 taxation year into the second quarter of 1992-93, while improved efficiencies in the first quarter of 1993-94 resulted in the faster processing of refunds for taxation year 1992. The timing of personal income tax refunds, therefore, distorts the current year-over-year deficit results. This should be corrected with the release of second quarter results. In addition, transitional costs associated with the restructuring of the child benefit system put upward pressure on the deficit in the first quarter of 1993-94, as personal income tax collections are still affected by the child tax expenditure provisions under the previous system. These

**The federal deficit
1992-93 and 1993-94**

Year to date

billions of dollars



* Estimated.

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Table 1
Summary statement of transactions

	June		April to June	
	1992	1993	1992-93	1993-94
(in millions of dollars)				
A. Budgetary transactions				
Revenues	9,168	9,197	27,978	24,086
Program spending	-10,110	-9,933	-27,015	-26,631
Operating surplus	-942	-736	963	-2,545
Public debt charges	-3,231	-3,257	-9,829	-9,778
Deficit	-4,173	-3,993	-8,866	-12,323
B. Non-budgetary transactions	-1,734	-1,760	-2,323	-1,140
C. Financial requirements (excluding foreign exchange transactions)	-5,907	-5,753	-11,189	-13,463
D. Foreign exchange transactions: net source (+) / requirement (-)	291	837	2,760	901
E. Total financial requirements	-5,616	-4,916	-8,429	-12,562
F. Unmatured debt transactions	5,236	4,080	9,148	11,138

factors are not expected to affect the April 1993 budget deficit outlook for 1993-94 adversely.

Program spending was lower in the first quarter of 1993-94, compared to the same period last year, due to the replacement of the monthly family allowance benefit payment by the child tax benefit and to lower unemployment insurance benefit payments. Public debt charges were also lower, reflecting the impact of lower interest rates.

Financial requirements, excluding foreign exchange transactions, amounted to \$13.5 billion in the first quarter of 1993-94, up \$2.3 billion from that recorded in the first quarter of 1992-93. Foreign exchange transactions in the first quarter of 1993-94 resulted in a net source of funds amounting to \$0.9 billion, compared to \$2.8 billion in the same period last year. As a result, total financial requirements, including foreign exchange transactions, were \$12.6 billion for the first quarter of 1993-94, up \$4.1 billion from the first quarter 1992-93 requirements.

Quarterly figures can exhibit wide fluctuations given the uneven timing of certain payments and

receipts and the effective dates of policy measures. As noted above, the timing of personal income tax refunds affected the first quarter fiscal results. In addition, the impact of certain policy decisions announced in previous budgets will only be fully reflected in the second half of the fiscal year. These include the streamlining of the Goods and Services Tax (GST) Credit, the end of the transitional costs associated with the restructuring of the child benefit system, and the reductions in operating costs and transfers.

Budgetary revenues

During the first quarter of 1993-94, budgetary revenues declined by 13.9 per cent on a year-over-year basis. This decline was primarily attributable to developments affecting personal income tax collections. Total excise taxes and duties were also lower in the first quarter of 1993-94 compared to the same period in 1992-93, while most of the other major components of budgetary revenues were higher.

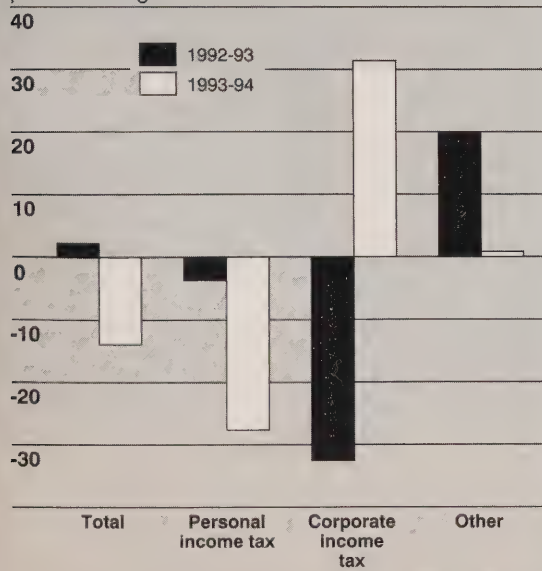
Table 2
Budgetary revenues: April to June

	1992-93	1993-94	Per cent change
	(in millions of dollars)		(%)
A. Income taxes			
1. Personal income tax	15,828	11,465	-27.6
2. Corporate income tax	1,214	1,595	31.4
3. Unemployment insurance contributions	4,541	4,638	2.1
4. Non-resident tax	240	276	15.0
5. Total income tax	21,823	17,974	-17.6
B. Excise taxes and duties			
1. Goods and Services Tax	2,528	2,591	2.5
2. Customs import duties	966	711	-26.4
3. Sales and excise taxes	1,594	1,574	-1.3
4. Total excise taxes and duties	5,088	4,876	-4.2
C. Other			
1. Other tax revenue	81	90	11.1
2. Non-tax revenue	986	1,146	16.2
3. Other revenues	1,067	1,236	15.8
D. Total budgetary revenues	27,978	24,086	-13.9

Budgetary revenues 1992-93 and 1993-94

April to June
Year-over-year growth

per cent change



Personal income tax revenues declined by 27.6 per cent, or \$4.4 billion, in the first quarter of 1993-94, compared to the same quarter in 1992-93. This decline reflects a number of factors, most notably the timing of personal income tax refunds (\$3.8 billion), lower taxes paid on filing (\$1.8 billion), the netting of the child tax benefit against personal income tax collections (\$1.4 billion), and the July 1992 and January 1993 reductions in the surtax as announced in the February 1992 budget (\$0.3 billion). Although these factors more than account for the year-over-year decline in personal income tax collections, the underlying growth remains sluggish, reflecting compositional changes in the labour force (more part-time employees) and low wage growth.

The year-over-year increase in corporate income tax collections was attributable to abnormally high refunds in the first quarter of 1992-93, primarily due to the impact of a court decision. Although corporate profits were up over 10 per cent in the first quarter of 1993, the application of prior-year losses to taxes otherwise payable is expected to

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restrain the overall increase in corporate income tax collections.

Total excise taxes and duties declined by 4.2 per cent, primarily reflecting lower customs import duties, due to the reduction in tariffs under the Canada-United States Free Trade Agreement and reduced domestic sales of tobacco products. In contrast, GST collections were up 2.5 per cent.

Budgetary expenditures

In the first quarter of 1993-94, budgetary expenditures declined by 1.2 per cent on a year-over-year basis. Public debt charges, the largest single component of budgetary expenditures, were 0.5 per cent lower. The decline in public debt charges reflected the impact of the declines in interest rates, especially short-term rates. Short-term interest rates are currently below the April 1993 budget forecast, which should continue to put downward pressure on public debt charges.

Program spending declined by 1.4 per cent in the first quarter of 1993-94, compared to the same period in 1992-93. Part of the decline reflects the replacement of the monthly family allowance benefit payments with the child tax benefit. As the child tax benefit is administered through the *Income Tax Act* and represents a reduction in personal income taxes, it is netted against personal income tax revenues and is not included as part of program spending. The first quarter 1993-94 program spending results were also affected by the timing of certain payments, especially in the areas of defence and international assistance. Developments over the remaining months of 1993-94 should bring these growth rates in line with the April 1993 budget projections.

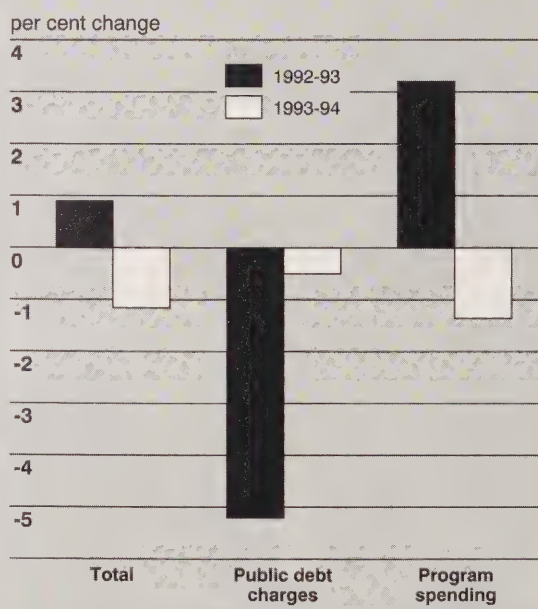
The decline in major transfers to persons was largely due to the replacement of family allowance benefit payments by the child tax benefit. Unemployment insurance benefit payments were lower, reflecting a decline in the number of persons

eligible for unemployment insurance benefits and the impact of the December 1992 Economic and Fiscal Statement measures. The latter reduced the benefit rate for new beneficiaries from 60 per cent to 57 per cent of average insurable earnings, effective April 1993, and excluded those who quit their jobs without just cause. Elderly benefit payments were higher, reflecting increases in average benefits, which are indexed to quarterly changes in the consumer price index, and the eligible population.

Transfers to other levels of government were up 6.6 per cent in the first quarter of 1993-94, compared to the same period last year. Slow growth in the applicable tax bases has resulted in higher cash payments under Established Programs Financing (EPF). Under the Expenditure Control Plan, first introduced in the February 1990 budget

Budgetary expenditures 1992-93 and 1993-94

April to June
Year-over-year growth



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Table 3
Budgetary expenditures: April to June

	1992-93	1993-94	Per cent change
	(in millions of dollars)		(%)
A. Transfer payments to:			
1. Persons:			
Elderly benefits	4,682	4,871	4.0
Unemployment insurance benefits	4,801	4,600	-4.2
Family allowances	726	9	-98.7
Veterans' pensions/allowances	347	351	1.3
Other	30	27	-8.6
Total	10,585	9,858	-6.9
2. Other levels of government			
Established Programs Financing	2,062	2,339	13.4
Fiscal transfers	2,513	2,587	3.0
Canada Assistance Plan	1,808	1,878	3.9
Total	6,384	6,804	6.6
3. Other			
Agricultural subsidies	651	255	-60.9
Indian and Inuit programs	934	1,088	16.5
Regional development	146	63	-56.9
Science and technology	208	193	-7.2
International assistance	304	394	29.4
Other	886	779	-12.1
Total	3,129	2,772	-11.4
4. Total transfers	20,099	19,435	-3.3
B. Payments to Crown corporations			
1. Canadian Broadcasting Corporation	351	284	-19.0
2. Canada Mortgage and Housing Corporation	420	387	-7.9
3. Other	385	469	21.7
4. Total	1,156	1,140	-1.4
C. Operating and capital expenditures			
1. Defence	1,835	2,149	17.1
2. All other departmental expenditures	3,925	3,907	-0.5
3. Total	5,760	6,056	5.1
D. Total program expenditures	27,015	26,631	-1.4
E. Public debt charges	9,829	9,778	-0.5
F. Total budgetary expenditures	36,844	36,409	-1.2

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and extended in the February 1991 budget, total EPF entitlements to provinces are limited to reflect changes in population only, implying a growth of about 1 per cent. EPF entitlements are paid in the form of tax point transfers and cash. The increase in cash transfers in the first quarter of 1993-94 reflects the downward revisions to the applicable taxes, which lowered the value of both prior-year and current-year tax point transfers. Fiscal transfers include Equalization, transfers to the territorial governments, grants to municipal governments in lieu of taxes, transfers under the *Public Utilities Income Tax Transfer Act* and payments under the Stabilization and Statutory programs.

The timing of payments primarily explains the large year-over-year fluctuations in other various components within other transfers. Similarly, the timing of capital payments resulted in higher defence spending. The decline in operating and capital expenditures by other government departments primarily reflects the impact of the expenditure reduction measures implemented in the December 1992 Economic and Fiscal Statement. These measures, coupled with the measures announced in the April 1993 budget, will further restrain spending throughout 1993-94 and bring spending in all areas in line with the April 1993 budget projections.

Financial requirements

Non-budgetary transactions in the first quarter of 1993-94 resulted in a net requirement of funds amounting to \$1.1 billion, compared to a requirement of \$2.3 billion recorded in the corresponding period of 1992-93. The lower requirement primarily reflects the repayment of loans by Crown corporations. As a result, financial requirements, excluding foreign exchange transactions, amounted to \$13.5 billion in the first quarter of 1993-94, up \$2.3 billion from the requirements in 1992-93.

Foreign exchange transactions resulted in a net source of funds of \$0.9 billion, compared to a source of \$2.8 billion in the first quarter of 1992-93. Total financial requirements, therefore, amounted to \$12.6 billion in the first quarter of 1993-94, up \$4.1 billion from the 1992-93 requirements. The 1993-94 requirement was financed through unmatured debt transactions of \$11.1 billion and a drawdown in cash balances of \$1.4 billion.

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Table 4
Non-budgetary transactions: April to June

	1992-93	1993-94
	(in millions of dollars)	
Loans, investments, and advances		
Crown corporations	-426	453
Other	-182	-100
Total	-608	353
Specified purpose accounts		
Canada Pension Plan Account	537	1,133
Superannuation accounts	-461	-401
Other	-169	-1,359
Total	-93	-627
Other transactions	-1,622	-866
Total non-budgetary transactions	-2,323	-1,140

Table 5
Foreign exchange and unmatured debt transactions: April to June

	1992-93	1993-94
	(in millions of dollars)	
Foreign exchange transactions		
Net international reserves	2,926	1,152
Unmatured debt transactions payable in foreign currencies	-166	-251
Total	2,760	901
Unmatured debt transactions		
Marketable bonds	3,749	5,238
Canada Savings Bonds	-1,273	-1,071
Treasury bills	6,190	6,100
Other	-160	138
Sub-total	8,506	10,405
<i>Less:</i>		
Government's holding of unmatured debt	476	482
Unmatured debt transactions payable in foreign currency	166	251
Sub-total	642	733
Total unmatured debt transactions payable in Canadian dollars	9,148	11,138

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Table 6
Cash, unmatured debt and debt balances: at June

	1992-93	1993-94
	(in millions of dollars)	
Cash balances at end of period		
In Canadian dollars	1,271	1,423
In foreign currencies	222	34
Total cash balance	1,493	1,457
Unmatured debt balance		
Payable in Canadian dollars –		
Marketable bonds	161,812	183,704
Canada Savings Bonds	34,325	33,298
Treasury bills	158,490	168,150
Other	3,507	3,894
Sub-total	358,134	389,046
Less:		
Government's holdings of unmatured debt	573	553
Total	357,561	388,493
Payable in foreign currencies –		
Marketable bonds	3,278	2,858
Notes and loans	0	0
Canada bills	0	2,301
Sub-total	3,278	5,159
Less:		
Government's holdings of unmatured debt	0	0
Total unmatured debt	360,839	393,652

The information in this Monitor is based on preliminary financial results for the quarter ended June 30, 1993.
For further information contact: P. DeVries at 996-7397. Cet imprimé est également offert en français.



Monthly Fiscal Monitor

A Publication of the Department of Finance

September 1993

Highlights of the financial results for July 1993

The deficit in July 1993 was estimated at \$3.7 billion, down \$0.5 billion from July 1992. The year-over-year improvement in the deficit was largely attributable to the timing of personal income tax refunds, which were about \$2 billion lower in July 1993 than in July 1992, reflecting the faster processing of tax returns in the current fiscal year. Program spending declined in July 1993, reflecting the replacement of family allowance benefit payments by the enhanced Child Tax Benefit and lower unemployment insurance benefit payments. Public debt charges were marginally lower. In contrast, excise taxes and duties, which include the Goods and Services Tax (GST), customs import duties, and other sales and excise taxes, declined by 26.8 per cent, on a year-over-year basis, reflecting weakness in domestic demand and the timing of refunds and payments. Corporate income tax collections were also lower.

In the first four months of 1993-94, the deficit amounted to \$16.0 billion, up \$2.9 billion on a year-over-year basis. All of the increase in the deficit was attributable to lower budgetary revenues, down \$3.4 billion from the April-July 1992 period.

- Personal income tax collections were down \$3.2 billion, reflecting lower taxes owing on filing and higher refunds pertaining to the 1992 taxation year, coupled with the impact of the February 1992 budget initiatives. These include the introduction of the enhanced Child Tax Benefit, which is netted against personal income tax collections, and the July 1992 and January 1993 reductions in the personal income surtax.
- Excise taxes and duties were down 11.1 per cent, primarily due to lower GST collections, reflecting weak domestic demand and higher refunds, and to customs import duties, reflecting the impact of tariff reductions under the Canada-U.S. Free Trade Agreement. Sales and excise taxes were also lower due to reduced domestic sales of tobacco products.

(continued on page 4)

Table 1
Government of Canada
Summary statement of financial transactions¹

	July		April to July	
	1992	1993	1992-93	1993-94
	(in millions of dollars)			
Budgetary transactions				
Revenues	8,179	8,634	36,157	32,721
Program spending	-9,236	-9,171	-36,251	-35,803
Operating balance	-1,057	-537	-94	-3,082
Public debt charges	-3,139	-3,136	-12,968	-12,914
Deficit	-4,196	-3,673	-13,062	-15,996
Non-budgetary transactions				
Financial requirements (excluding foreign exchange transactions)	-3,484	-2,166	-14,675	-15,629
Foreign exchange transactions	-2,340	-69	420	832
Financial requirements	-5,824	-2,235	-14,255	-14,797
Unmatured debt transactions	5,384	3,172	14,532	14,309

Note: Data compiled by the Receiver General for Canada.

¹ (+) indicates a source of funds, while (-) indicates a requirement for funds.

Monthly Fiscal Monitor

Table 2
Government of Canada
Detailed statement of budgetary transactions

	July		April to July	
	1992	1993	1992-93	1993-94
	(in millions of dollars)			
Revenues				
Personal income tax	2,896	4,040	18,724	15,505
Corporate income tax	711	623	1,924	2,218
Unemployment insurance contributions	1,485	1,602	6,026	6,240
Non-resident tax	115	120	355	396
Total income tax	5,207	6,385	27,029	24,359
Excise taxes and duties				
Goods and Services Tax	1,184	738	3,712	3,329
Customs import duties	364	267	1,330	978
Sales and excise taxes	719	654	2,313	2,228
Total excise taxes and duties	2,267	1,659	7,355	6,535
Other tax revenue	32	6	113	96
Total tax revenue	7,506	8,050	34,497	30,990
Non-tax revenue	673	584	1,660	1,731
Total budgetary revenues	8,179	8,634	36,157	32,721
Expenditures				
Transfer payments to:				
Persons –				
Elderly benefits	1,588	1,660	6,270	6,530
Unemployment insurance benefits	1,404	1,237	6,205	5,837
Other	373	134	1,485	513
Total	3,365	3,031	13,960	12,880
Other levels of government –				
Established Programs Financing	670	780	2,733	3,118
Fiscal transfers	954	858	3,467	3,506
Canada Assistance Plan	627	697	2,435	2,575
Total	2,251	2,335	8,635	9,199
Other				
Agriculture	99	148	750	403
Indian and Inuits	222	235	1,156	1,323
Regional development	44	53	190	116
Science and technology	48	72	256	265
International assistance	270	192	574	586
Other	391	256	1,270	981
Total	1,074	956	4,196	3,674
Total transfers	6,690	6,322	26,791	25,753
Payments to Crown corporations	346	341	1,502	1,481
Operating and capital expenditures				
Defence	849	927	2,683	3,076
All other departmental expenditures	1,351	1,581	5,275	5,493
Total	2,200	2,508	7,958	8,569
Total program spending	9,236	9,171	36,251	35,803
Public debt charges	3,139	3,136	12,968	12,914
Total budgetary expenditures	12,375	12,307	49,219	48,717

Monthly Fiscal Monitor

Table 3
Government of Canada
Non-budgetary transactions

	July		April to July	
	1992	1993	1992-93	1993-94
(in millions of dollars)				
Loans, investments, and advances				
Crown corporations	-100	433	-526	887
Other	-59	-22	-242	-118
Total	-159	411	-768	769
Specified purpose accounts				
Canada Pension Plan Account	-377	-384	160	750
Superannuation accounts	-212	-276	-673	-677
Other	-978	133	-1,147	-1,227
Total	-1,567	-527	-1,660	-1,154
Other transactions	2,438	1,623	815	752
Total non-budgetary transactions	712	1,507	-1,613	367

Table 4
Government of Canada
Foreign exchange and unmatured debt transactions

	July		April to July	
	1992	1993	1992-93	1993-94
(in millions of dollars)				
Foreign exchange transactions				
Net international reserves	-2,340	-485	586	667
Unmatured debt transactions payable in foreign currencies	—	416	-166	165
Total	-2,340	-69	420	832
Unmatured debt transactions				
Marketable bonds	842	2,830	4,592	8,067
Canada Savings Bonds	-315	-272	-1,588	-1,343
Treasury bills	4,560	150	10,750	6,250
Other	161	740	1	878
Sub-total	5,248	3,448	13,755	13,852
Less:				
Government's holding of unmatured debt	136	140	611	622
Unmatured debt transactions payable in foreign currencies	—	-416	166	-165
Sub-total	136	-276	777	457
Total unmatured debt transactions payable in Canadian dollars	5,384	3,172	14,532	14,309

Monthly Fiscal Monitor

Table 5
Government of Canada
Cash, unmatured debt and debt balances

	At July 31	
	1992	1993
	(in millions of dollars)	
Cash balances		
In Canadian dollars	801	2,327
In foreign currencies	251	67
Total cash balance	1,052	2,394
Unmatured debt balance		
Payable in Canadian dollars –		
Marketable bonds	162,107	186,533
Canada Savings Bonds	34,009	33,026
Treasury bills	163,050	168,300
Other	3,509	4,218
Sub-total	362,675	392,077
Less:		
Government's holdings of unmatured debt	-437	-414
Total	362,238	391,663
Payable in foreign currencies –		
Marketable bonds	3,278	2,858
Notes and loans	0	0
Canada bills	0	2,717
Sub-total	3,278	5,575
Less:		
Government's holdings of unmatured debt	0	0
Total unmatured debt	365,516	397,238

(continued from page 1)

Program spending was 1.2 per cent lower in April-July 1993 than in April-July 1992, reflecting the elimination of family allowance payments due to the introduction of the Child Tax Benefit, lower unemployment insurance benefit payments, and the restraint measures introduced in the December 1992 Economic and Fiscal Statement. Lower interest rates resulted in a decline in public debt charges.

The deficit, on a year-over-year basis, should continue to improve as the impact of policy initiatives, announced in the December 1992 Economic and Fiscal Statement and April 1993 budget, takes effect.

The *Monthly Fiscal Monitor* will be published for the first two months of each quarter.
The *Quarterly Fiscal Monitor* will be published for the final month of each quarter.



Monthly Fiscal Monitor

A Publication of the Department of Finance

October 1993

Highlights of the financial results for August 1993

The deficit in August 1993 was down \$0.9 billion from August 1992, the third consecutive month in which the deficit has been lower on a year-over-year basis. The year-over-year improvement in the deficit in August 1993 was largely attributable to higher revenues, up 8.5 per cent from August 1992, as increased corporate income tax and GST collections more than offset a decline in personal income tax collections. The increase in GST collections primarily reflected the timing of collections, while the decline in personal income tax revenues was attributable to the impact of the February 1992 budget measures, most notably the introduction of the Child Tax Benefit and the reductions in the surtax.

The deficit in the first five months of 1993-94 was up \$2.0 billion on a year-over-year basis. About half of the year-over-year increase can be attributable to the introduction of the Child Tax Benefit and the reductions in the personal income surtax. As the year progresses, the net impact of the Child Tax Benefit on the deficit will lessen as the government will no longer be paying the Child Tax Credit.

- Receipts from excise taxes and duties were up 0.5 per cent, as higher GST collections, primarily reflecting the timing of receipts, offset declines in the other components. Customs import duties were lower, due to the impact of tariff reductions under the Canada-U.S. Free Trade Agreement, while sales and excise taxes were down, reflecting reduced domestic sales of tobacco products.

(continued on page 4)

Table 1
Government of Canada
Summary statement of financial transactions¹

	August		April to August	
	1992	1993	1992-93	1993-94
	(in millions of dollars)			
Budgetary transactions				
Revenues	8,942	9,707	45,099	42,427
Program spending	-9,071	-9,141	-45,323	-44,944
Operating balance	-129	566	-224	-2,517
Public debt charges	-3,420	-3,166	-16,388	-16,080
Deficit	-3,549	-2,600	-16,612	-18,597
Non-budgetary transactions				
Financial requirements (excluding foreign exchange transactions)	-2,546	-1,413	-17,222	-17,043
Foreign exchange transactions	182	2,831	602	3,663
Financial requirements	-2,364	-1,418	-16,620	-13,380
Unmatured debt transactions	1,872	-703	16,404	13,607

Note: Data compiled by the Receiver General for Canada.

¹ (+) indicates a source of funds, while (-) indicates a requirement for funds.

Monthly Fiscal Monitor

Table 5
Government of Canada
Cash, unmatured debt and debt balances

	At August 31	
	1992	1993
	(in millions of dollars)	
Cash balances		
In Canadian dollars	285	2,980
In foreign currencies	274	129
Total cash balance	559	3,109
Unmatured debt balance		
Payable in Canadian dollars –		
Marketable bonds	165,513	188,333
Canada Savings Bonds	33,748	32,769
Treasury bills	162,350	166,300
Other	3,509	4,218
Sub-total	365,120	391,228
Less:		
Government's holdings of unmatured debt	303	267
Total	364,817	390,961
Payable in foreign currencies –		
Marketable bonds	2,616	2,858
Notes and loans	0	0
Canada bills	0	4,103
Sub-total	2,616	6,961
Less:		
Government's holdings of unmatured debt	0	0
Total unmatured debt	367,433	397,922

continued from page 1)

- * Personal income tax collections were down \$3.7 billion, primarily reflecting the impact of the February 1992 budget initiatives. These include the replacement of the enhanced Child Tax Benefit, which is netted against personal income tax collections, and the July 1992 and January 1993 reductions in the personal income surtax. In addition, lower taxes owing on filing and higher refunds pertaining to the 1992 taxation year also impact adversely on the personal income tax collections to date.

Program spending was 0.8 per cent lower in April-August 1993 than in April-August 1992, due to the elimination of family allowance payments resulting from the introduction of the Child Tax Benefit, lower unemployment insurance benefit payments, and the restraint measures introduced in the December 1992 Economic and Fiscal Statement. Lower spending in these areas was largely offset by increased elderly benefit payments, higher transfers to provinces under Established Programs Financing, and increased defence spending. Public debt charges declined 1.9 per cent, reflecting the impact of lower interest rates.

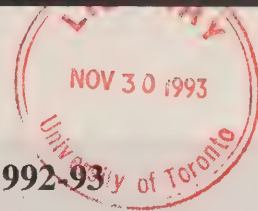
The *Monthly Fiscal Monitor* will be published for the first two months of each quarter.
The *Quarterly Fiscal Monitor* will be published for the final month of each quarter.



Annual Fiscal Monitor

A Publication of the Department of Finance

November 1993



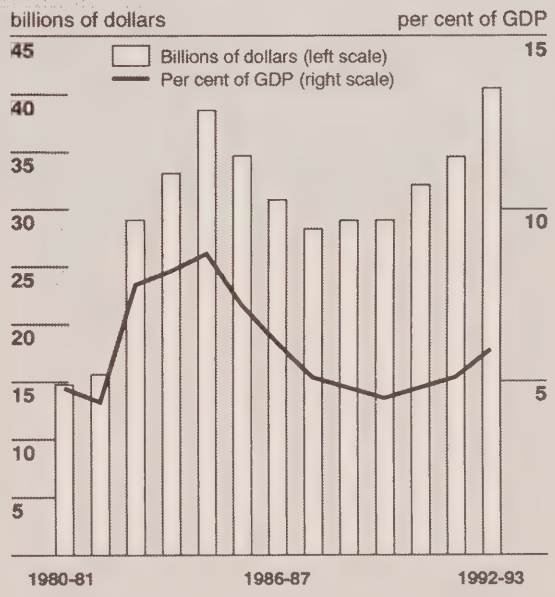
Highlights of the preliminary financial results for 1992-93

- The preliminary deficit result for 1992-93, on a public accounts basis, is \$40.5 billion. This estimate is up \$6.0 billion from 1991-92 and \$5.0 billion higher than the April 1993 budget projection of \$35.5 billion.
- The sluggishness in economic growth in 1992 and the lagged impacts of the 1990-1991 recession resulted in a decline in budgetary revenues and increased certain components of spending. Adjustments were included to bring the value of government investments in line with current economic developments.
- The accounting treatment for the effect of wage restraint on employee pensions has been changed in accordance with the recommendation of the Auditor General and the Public Accounts Committee.
- Financial requirements declined by \$4.1 billion in 1992-93, as a higher net source of funds from non-budgetary and foreign exchange transactions more than offset the increase in the deficit.

Summary

Economic growth following the 1990-1991 recession was considerably below the pattern of previous recoveries. Real output increased by only 0.7 per cent in 1992, following two years of decline. The weakness in output growth in 1992, coupled with the lagged effects of the 1990-1991 recession, continued to depress revenues and increase certain components of spending throughout 1992-93. Working with the Office of the Auditor General, there has also been a reassessment of the allowance for valuation of the government's investments in Crown corporations and certain loans to more adequately reflect their current market value. In addition, the government has accepted the recommendation of the Auditor General and of the Public Accounts Committee and changed the accounting treatment for the effect of wage restraint on employee pensions. Rather than viewing the effect of the two-year wage freeze as a "plan curtailment", with the full amount of the

The deficit



Annual Fiscal Monitor

Table 1

Summary statement of transactions: preliminary outcome for 1992-93

	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93
	(billions of dollars)								
A. Budgetary transactions									
1. Revenues	71.1	76.9	85.9	97.6	104.1	113.7	119.4	122.0	121.5
2. Program spending	87.1	86.1	90.1	96.8	99.9	103.9	108.9	115.3	122.5
3. Operating balance	-16.1	-9.2	-4.1	0.8	4.2	9.8	10.4	6.7	-1.1
4. Public debt charges	22.5	25.4	26.7	29.0	33.2	38.8	42.5	41.2	39.4
5. Deficit	-38.6	-34.6	-30.8	-28.3	-29.0	-29.0	-32.1	-34.5	-40.5
B. Net public debt	206.6	241.2	272.0	300.3	329.2	358.3	390.3	424.8	465.3
C. Non-budgetary transactions: net source(+)/requirement(-)	8.7	4.1	7.8	9.4	6.5	8.5	7.5	2.7	6.0
D. Financial requirements (excluding foreign exchange transactions)	-29.8	-30.5	-22.9	-18.8	-22.5	-20.5	-24.4	-31.8	-34.5
E. Foreign exchange transactions: net source (+)/requirement (-)	2.4	5.6	-6.4	-7.1	-5.7	-0.7	-4.9	0.9	7.7
F. Total financial requirements	-27.4	-24.9	-29.3	-25.9	-28.2	-21.2	-29.4	-30.9	-26.8
G. Unmatured debt transactions	26.8	23.8	29.2	22.9	28.5	20.9	30.5	29.1	28.9
H. Cash balance at end of period	5.9	4.7	4.6	1.5	1.8	1.5	2.6	0.8	2.9
Memorandum: As a percentage of gross domestic product									
Deficit	8.7	7.2	6.1	5.1	4.8	4.5	4.8	5.1	5.9
Financial requirement (excluding foreign exchange transactions)	6.7	6.4	4.5	3.4	3.7	3.2	3.7	4.7	5.0
Budgetary revenues	16.0	16.1	17.0	17.7	17.2	17.5	17.8	18.1	17.7
Program spending	19.6	18.0	17.8	17.6	16.5	16.0	16.0	17.1	17.8
Net public debt	46.5	50.5	53.8	54.4	54.3	55.1	58.2	62.9	67.6

Note: Adjustments have been made to the historical numbers to reflect changes in accounting practices.

Figures may not add due to rounding.

reduction applied against the 1992-93 deficit, the effect will now be recognized in equal annual amounts over the expected average remaining service lives of employees. The net impact of this change is to increase the 1992-93 deficit by \$1.2 billion. As a result, the deficit increased to \$40.5 billion in 1992-93, up \$6.0 billion from 1991-92. As a percentage of the economy (gross domestic product – GDP), it increased from 5.1 per cent in 1991-92 to 5.9 per cent in 1992-93.

The operating balance – the difference between budgetary revenues and program spending – moved into a deficit, after recording a surplus in each of the last five years.

The deficit of \$40.5 billion was financed through the application of net source of funds from non-budgetary transactions and foreign exchange

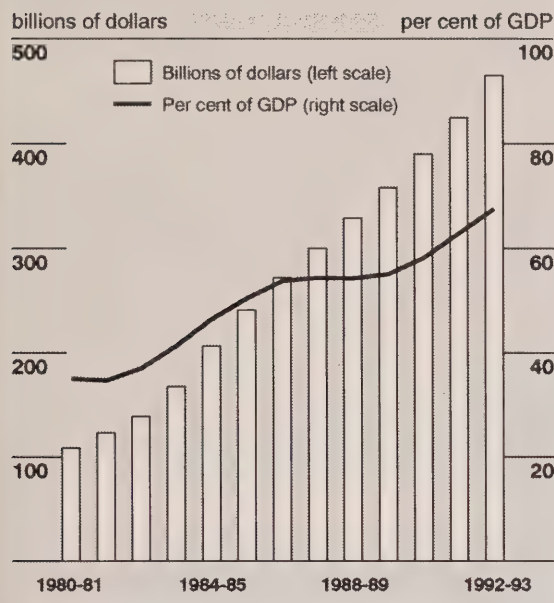
transactions of \$13.7 billion and unmatured debt transactions of \$28.9 billion. As a result, cash balances increased by \$2.1 billion. Financial requirements and unmatured debt transactions were lower in 1992-93 than in 1991-92.

The net public debt – the cumulation of budgetary deficits and surpluses since Confederation – stood at \$465.3 billion as of March 31, 1993, or 67.6 per cent of GDP. On a per capita basis, this amounts to \$16,883, up \$1,245 from March 31, 1992.

Final fiscal year results for 1992-93 will be published in the Public Accounts of Canada, which will be tabled in Parliament early in the new year.

The preliminary deficit outcome for 1992-93 was \$5.0 billion higher than the April 1993 budget estimate. Budgetary expenditures were \$3.6 billion higher than estimated in the April 1993 budget.

Net public debt



Most of this increase is attributable to a change in accounting policies for the recognition of the effect of wage restraint on employee pension liabilities and to increases in allowances for valuation. The remaining difference primarily reflects the impact of economic data that became available after the budget, which indicated that the performance of the economy was weaker than originally expected. The impact of the economic developments was most pronounced on the applicable tax bases, with the result that budgetary revenues were \$1.4 billion lower than estimated in the April 1993 budget.

Changes in accounting policies, with respect to the accounting for loan guarantees and for the effect of wage restraint on employee pensions, have also resulted in revisions to previous years' deficit results. The effect of these changes has been to increase net debt by \$1.8 billion at the end of 1992-93.

Budgetary revenues

Budgetary revenues in 1992-93 declined by 0.5 per cent from last year. The weakness in nominal income growth in 1992, up only 1.9 per cent from 1991, coupled with substantially lower personal income taxes owing at filing and higher personal

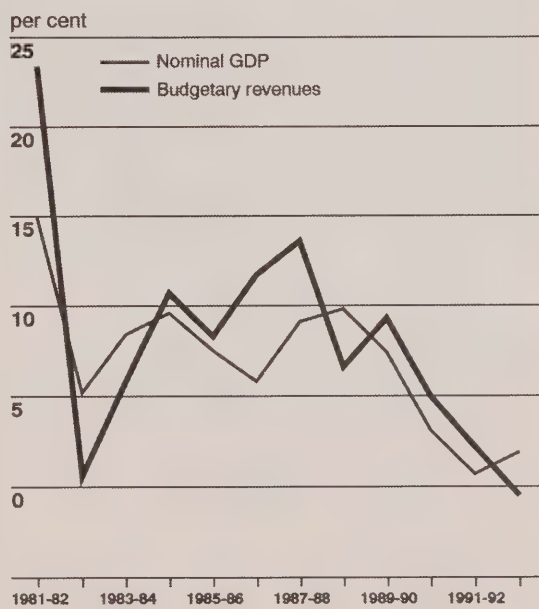
income tax refunds with respect to the 1991 taxation year, were the major factors contributing to the decline in budgetary revenues. In addition, the introduction of the child tax benefit and the reductions in the personal income tax surtax also reduced revenues in 1992-93. All three major revenue sources – personal income tax, corporate income tax, and GST – were lower. The overall decline in budgetary revenues would have been larger had it not been for the ending of transitional costs associated with the sales tax reform, which significantly reduced revenues in 1991-92, and the impact of higher premium rates on unemployment insurance contributions.

As a percentage of GDP, budgetary revenues fell to 17.6 per cent, from 18.1 per cent in 1991-92, the first decline in this ratio since 1988-89. The decline in the ratio was largely due to lower personal and corporate income tax income tax collections. In contrast, the share of unemployment insurance premium contributions increased.

Personal income tax collections in 1992-93 declined 4.8 per cent on a year-over-year basis. This decline reflects the combination of a number

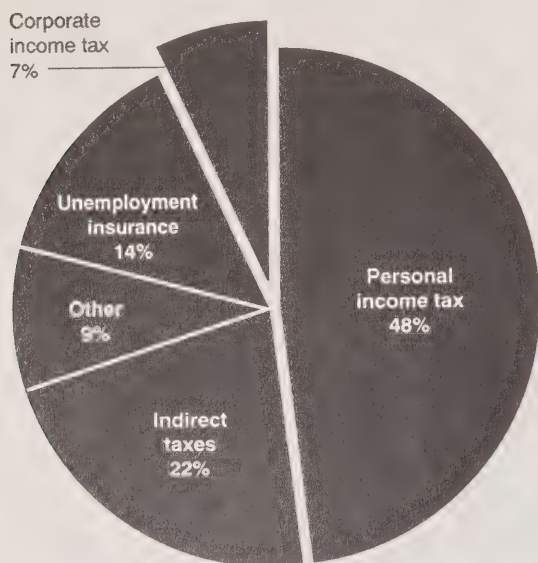
Federal revenues and the economy

Year-to-year change



Annual Fiscal Monitor

Budgetary revenues \$121.5 billion



of factors, including developments affecting taxation year 1991, continued weakness in income growth in 1992, and the impact of discretionary policy actions. According to Statistics Canada, personal incomes in 1991 advanced by only 2.9 per cent, compared to an increase of 7.1 per cent in 1990, as declines in employment and slow wage growth dampened increases in employment income, while lower interest rates and dividends resulted in a decline in investment income. In addition, unincorporated business income remained depressed. Excluding government transfer payments, such as unemployment insurance and elderly benefit payments, personal income advanced by only 0.8 per cent in 1991. However, personal income tax collections throughout 1991 remained relatively robust, which given the underlying tax base in 1991 and the lags in filing income tax returns, implied lower net collections in 1992-93. Taxes paid at the time of tax filing for taxation year 1991 were significantly lower, while personal income tax refunds were significantly higher, than those for taxation year 1990. Refunds pertaining to the 1991 taxation year were largely paid out during the April to July 1992 period,

while taxes owing on filing, with respect to taxation year 1991 were recorded in May 1992. The net impact of the higher refunds and lower tax owing on filing relating to the 1991 taxation year was to reduce federal personal income tax revenues in 1992-93 by about \$2.5 billion.

The weakness in personal incomes observed in 1991 continued into 1992. Personal income advanced by only 2.5 per cent in 1992. Excluding transfer payments, the increase in personal income amounted to 1.4 per cent. In addition, the factor used to index the tax brackets and exemptions, at 2.8 per cent, exceeded the growth in average incomes, thereby further dampening taxable income growth and personal income tax collections.

The restructuring of the child benefit system also affected personal income tax collections in 1992-93. Effective January 1993, the monthly family allowance, the refundable child tax credit and the non-refundable dependent child credit were replaced by an enhanced child tax benefit, that incorporated an earned-income supplement for low- and middle-income working families with children. The child tax benefit is paid monthly. As it is based on taxable income, the new child tax benefit is netted against personal income tax revenues, which reduced personal income tax collections by about \$1.4 billion in the January 1993 to March 1993 period. Reductions in the general surtax rate of one percentage point in July 1992 and by a further one percentage point in January 1993 reduced personal income tax collections by about \$0.5 billion over the July 1992 to March 1993 period. Recoveries from the Provincial Tax Collection Account (\$1.4 billion in 1992-93), resulting from overpayments in previous taxation years, offset some of the negative impact of these factors on personal income tax collections.

On a year-over-year basis, corporate income tax collections were down by 11.5 per cent. This marks the third consecutive year in which corporate income tax collections have declined. Corporate profits declined by 4.2 per cent in 1992 and were 50.6 per cent below their peak in 1988. The year-over-year decline in corporate income tax

Table 2
Budgetary revenues

	1991-92	1992-93	Year-over-year change
	(millions of dollars)		(%)
A. Personal income tax	61,222	58,283	-4.8
B. Corporate income tax	9,359	8,278	-11.6
C. Unemployment insurance contributions	15,394	17,535	13.9
D. Sales and excise taxes and duties			
1. Goods and Services Tax	15,168	14,868	-2.0
2. Customs import duties	3,999	3,811	-4.7
3. Excise taxes and duties	7,998	7,545	-5.7
4. Manufacturers' sales tax	-1,969	-143	
5. Total	25,196	26,081	3.5
E. Other tax revenue	1,534	1,461	-4.8
F. Non-tax revenue	9,327	9,813	5.2
G. Total budgetary revenues	122,032	121,451	-0.5

collections reflects not only the weakness in corporate profits, but also the impact of higher refunds, as losses are being applied against taxes paid in the past as well as taxes currently owing.

Net Goods and Services Tax (GST) collections were marginally lower in 1992-93 than in 1991-92, despite the fact that collections in 1991-92 were affected by the one-time payment of the small business transitional grant. Excluding the impact of this grant, GST collections in 1992-93 declined by about \$1 billion, or 6.7 per cent, from 1991-92. This year-over-year decline in GST revenues largely reflects the impact of timing delays in the payments of rebates and refunds, which resulted in a one-time cash flow impact of about \$1 billion in 1991-92. Net collections in 1992-93 were also dampened by a higher payout of the low-income GST Credit.

Customs import duties declined 4.7 per cent in 1992-93, as tariffs were lowered as specified under the Canada-United States Free Trade Agreement.

Excise taxes and duties also declined in 1992-93, primarily due to reduced domestic tax-paid sales of tobacco products. Other tax revenues, consisting primarily of the non-resident tax, decreased by 4.8 per cent.

Dampening the overall impact of these declines on budgetary revenues were the ending of rebates relating to federal sales tax paid on new and unused inventory as of December 31, 1990, and higher unemployment insurance contributions and non-tax revenues. The increase in unemployment insurance contributions reflects the impact of higher maximum insurable earnings subject to unemployment insurance contributions and the July 1991 and January 1992 increases in premium rates. The increases in premium rates were introduced to ensure the financial integrity of the Unemployment Insurance Account. Non-tax revenues, consisting of return on investments and other non-tax revenues increased by 5.2 per cent, primarily due to higher Exchange Fund Account profits.

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Budgetary expenditures

Budgetary expenditures were up 3.4 per cent in 1992-93, compared to 1991-92. As a percentage of GDP, total budgetary expenditures increased slightly, from 23.2 per cent in 1991-92 to 23.5 per cent in 1992-93.

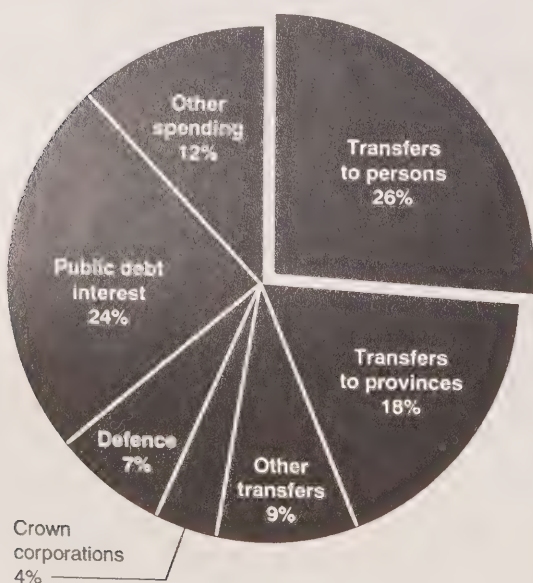
Public debt charges, the largest single component of budgetary expenditures, accounting for about 25 per cent of total spending, declined by 4.5 per cent, reflecting the impact of lower effective interest rates on the stock of public debt. The moderating inflationary pressures observed throughout 1992 allowed for a continuation of easing in monetary conditions, that began in the spring of 1990. The 90-day commercial paper rate began the year at 7.25 per cent and fell as low as 4.77 per cent in September, before instability in international financial markets, concern over fiscal deficits and uncertainty about constitutional developments led to an interruption in the trend. By December, however, financial markets had stabilized and interest rates resumed their decline. Long-term interest rates also fell through 1992 and into 1993, though not as fast as short-term rates.

As a result, the average effective interest rate on the federal unmatured debt at March 31, 1993 amounted to 7.88 per cent, down 98 basis points from March 31, 1992. The impact of the decline in average effective interest rates more than offset the increase in gross unmatured debt, which rose from \$351,885 million at March 31, 1992 to \$382,741 million at March 31, 1993.

Program spending advanced by 6.3 per cent in 1992-93. The increase was attributable to a number of factors including a number of adjustments, which reduced spending in 1991-92 but increased program spending in 1992-93 and the impact of the weakness in income and employment, which resulted in higher unemployment insurance benefit payments and increased cash transfers to provinces under Established Programs Financing. Restraining the overall increase in program spending was the replacement of the family allowance benefit by the new monthly child tax benefit.

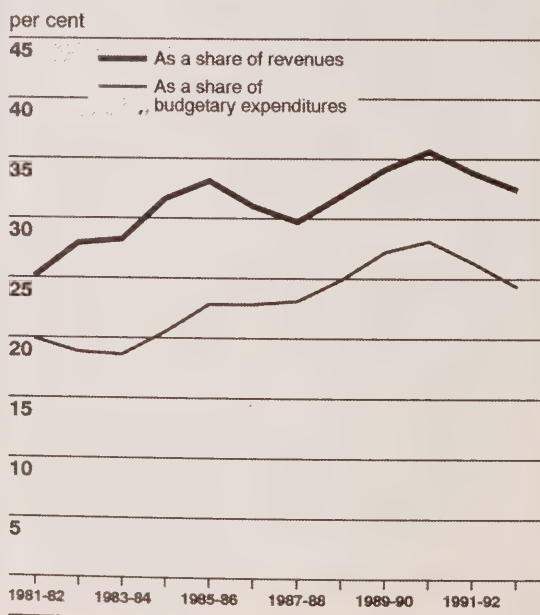
Transfers to persons increased by 2.6 per cent, largely due to higher old age security and unemployment insurance benefits. The increase in old age security benefits reflects increases in

Budgetary expenditures \$161.9 billion



Public debt charges – the interest bite

Year-to-year change



Annual Fiscal Monitor

Table 3
Budgetary expenditures

	1991-92	1992-93	Per cent change
	(millions of dollars)		(%)
A. Transfer payments to persons			
Unemployment insurance program payments	18,125	19,065	5.2
Old age security benefits	18,393	19,106	3.9
Family allowances	2,821	2,195	-22.2
Other	1,435	1,488	3.6
Total	40,773	41,854	2.6
B. Transfer payments to other levels of government			
Established Programs Financing	8,830	11,194	26.8
Fiscal arrangements	10,295	9,086	-11.7
Canada Assistance Plan	6,099	6,686	9.6
Other	1,742	1,838	5.5
Total	26,966	28,804	6.8
C. Other transfer payments			
Agricultural subsidies	1,853	1,666	-10.1
Indian and Inuit programs	2,547	2,845	11.7
Regional/industrial development	2,002	2,238	11.8
Job creation/labour adjustment	1,951	1,887	-3.3
International Assistance	2,787	2,805	0.6
Other	3,073	3,362	9.4
Total	14,212	14,803	4.2
D. Crown corporation expenditures			
Canada Mortgage and Housing Corporation	1,904	1,979	3.9
Canadian Broadcasting Corporation	1,031	1,110	7.7
Other	2,366	3,091	30.6
Total	5,301	6,180	16.6
E. Defence	10,922	11,062	1.3
F. All other program spending	17,137	19,834	15.7
G. Total program expenditures	115,311	122,537	6.3
H. Public debt charges	41,231	39,394	-4.5
I. Total budgetary expenditures	156,542	161,931	3.4

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average benefits, which are indexed to quarterly changes in the consumer price index, and in the eligible population. Unemployment insurance benefit payments were up 5.2 per cent, following double-digit increases in fiscal year 1991-92. The introduction of the new child tax benefit, effective January 1993, replaced the monthly family allowance benefit, thereby accounting for the year-over-year decline in that component.

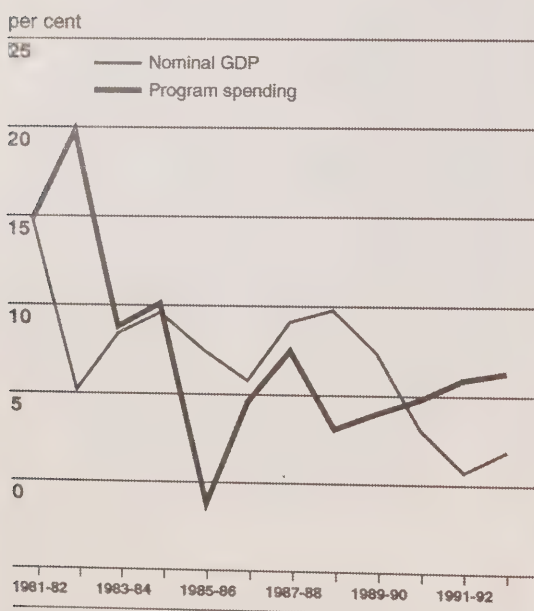
Transfers to other levels of government were up 6.8 per cent on a year-over-year basis. The federal government provides transfers to provinces through the Established Programs Financing (EPF) program in support of health and post-secondary education. Since 1990-91, these entitlements have been frozen in per capita terms, implying an annual growth of about 1 per cent. EPF entitlements are paid in the form of tax point transfers and cash. The increase in cash transfers of 26.8 per cent reflects the downward revisions to the estimates of personal and corporate income tax yields in 1990 and 1991, which lowered the value of both prior-year and current-year tax point transfers. In addition, prior-year adjustments due to higher

population estimates resulting from the 1991 census further increased cash transfers in 1992-93.

Fiscal arrangements include equalization, grants to provincial and municipal governments in lieu of taxes, and statutory and stabilization programs, as well as transfers under the *Public Utilities Income Tax Transfer Act*. The largest of these is equalization, under which the federal government provides cash transfers to provinces with below-standard fiscal capacities to ensure that provinces can provide reasonably comparable levels of public services at reasonably comparable levels of taxation. The year-over-year decline in fiscal transfers reflects the impact of reduced equalization entitlements in respect of current and prior years, due to the 1990-1991 recession and the impact of revised population results based on the 1991 Census. Under program operating rules some of the overpayment was recovered immediately with the remainder deferred for a short period. To assist equalization-receiving provinces in dealing with the recovery of the census overpayment, a special relief plan has been established, whereby some provinces will have up to 11 years to repay the federal government.

Federal program spending and the economy

Year-to-year change



Under the Canada Assistance Plan (CAP), the federal government shares the cost of provincial income maintenance and social services programs on a fifty-fifty basis for equalization-receiving provinces. CAP transfers to non-equalization-receiving provinces, Ontario, Alberta, and British Columbia, have been limited to a 5 per cent annual growth since 1990-91.

Spending on other transfers increased by 4.2 per cent on a year-over-year basis. With the exception of transfers under the various agricultural subsidy programs and, to a lesser extent, the job creation and labour adjustment programs, increases were recorded. Increased transfers were recorded to Indian and Inuit peoples, regional development, science and technology, and to assist the fishing industry under the Northern Cod Moratorium and Adjustment Program.

Most of the increase in the Crown corporations component was attributable to valuation

adjustments to more properly reflect the estimated realizable value of the government's investment in its corporations. In addition, higher payments were made during the course of the year to the Canadian Broadcasting Corporation and the Canada Mortgage and Housing Corporation. Defence spending was up only 1.3 per cent.

Other program spending includes the costs of government administration and specific services delivered to the public, including health care to natives and veterans, research undertaken by government employees, the operation of airports and national parks, the operation of federal correctional institutions, and the provision of police services. Spending in this component was up \$2.7 billion or 15.7 per cent in 1992-93, following a decline of 4.7 per cent reported in 1991-92. About \$1 billion of the increase in 1992-93 was due to a reduction in the allowance for employee benefit costs in 1991-92, as a result of the government's decision to limit retroactive equal pay adjustments to the period after November 1990. Other factors contributing to

increased spending during 1992-93 included the costs associated with the constitutional referendum and increased payments to public sector insurance plans.

The Spending Control Act

On June 18, 1992, Royal Assent was given to Bill C-56 "An Act respecting the control of government expenditures" – *The Spending Control Act*. This Act imposes legislated limits on the amount of federal government spending over the five-year period – 1991-92 to 1995-96. The legislated spending limits are based on the spending projections contained in the February 1991 budget. Adjustments are made to exclude spending related to public debt charges, major self-financing programs (*Unemployment Insurance Act* and federal advances to the *Farm Income Protection Act*), expenditures made as a result of emergencies, expenditures related to events occurring prior to April 1991, and losses on the sale of disposal of shares in Crown corporations.

Table 4
Spending Control Act

	1991-92	1992-93
	(millions of dollars)	
Total expenditure for the year	156,542	161,931
Less:		
Public debt charges	41,231	39,394
Expenditures under the <i>Unemployment Insurance Act</i>		
– Benefits	18,125	19,065
– Administration	1,207	1,242
Expenditures under the <i>Farm Income Protection Act</i>		
– Crop re-insurance	52	
– Revenue Insurance Fund	16	135
Expenditures related to events occurring prior to April 1991	241	556
Total adjustments	60,871	60,393
Spending subject to spending limit	95,671	101,538
Spending limit for the year	97,200	100,998
Under/overspending for the year	-1,529	540

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Table 5
Financial requirements and unmatured debt transactions

	1991-92	1992-93
	(millions of dollars)	
A. Budgetary deficit	-34,510	-40,480
B. Non-budgetary transactions		
1. Loans, investments, and advances		
Crown corporations	-521	264
Other	337	-114
Total	-184	-150
2. Specified purpose accounts		
Canada Pension Plan Account	-278	-342
Superannuation accounts	5,789	6,030
Other	16	-35
Total	5,530	5,653
3. Other transactions	-2,636	180
4. Total non-budgetary transactions	2,710	5,983
C. Financial requirements (excluding foreign exchange transactions)	-31,800	-34,497
D. Foreign exchange transactions		
1. Net international reserves	1,996	5,747
2. Unmatured debt transactions payable in foreign currencies	-1,082	1,966
3. Total	941	7,713
E. Total financial requirements	-30,859	-26,784
F. Unmatured debt transactions		
1. Marketable bonds	14,395	19,824
2. Canada Savings Bonds	"1,154	-1,229
3. Treasury bills	13,150	9,750
4. Other	-1,006	2,549
5. Sub-total	27,693	30,894
Less:		
6. Government's holding of unmatured debt	-289	-37
7. Unmatured debt transactions payable in foreign currency	1,082	-1,966
8. Sub-total	1,371	-2,003
9. Total unmatured debt transactions payable in Canadian dollars	29,064	28,891

The spending limit for 1992-93, as specified under the Act, is \$101.0 billion. Spending during the course of 1992-93 subject to the *Spending Control Act* amounted to \$101.5 billion – \$0.5 billion above the spending limit for the year. However, under the *Spending Control Act*, underspending in one year may be carried forward to offset overspending in other years. In 1991-92, spending subject to control was \$1.5 billion below the limit set out in the Act. As a result, spending subject to control over the first two years was \$1.0 billion below the limits set out in the Act.

Factors affecting financial requirements

The government's net financial requirements reflect not only the difference between budgetary revenues and expenditures, but also the net source of funds generated by non-budgetary and foreign exchange transactions. Non-budgetary transactions in 1992-93 amounted to \$6.0 billion, up \$3.3 billion from 1991-92. Foreign exchange transactions resulted in a net source of funds of \$7.7 billion, compared to a net source of

Table 6
Cash, unmatured debt and debt balances at March 31

	1992	1993
	(millions of dollars)	
A. Cash balances at end of period		
1. Canadian dollars	677	2,774
2. In foreign currencies	97	107
3. Total cash balance	774	2,881
B. Unmatured debt balance		
1. Payable in Canadian dollars:		
Marketable bonds	158,062	178,465
Canada Savings Bonds	35,598	34,369
Treasury bills	152,300	162,050
Other	3,501	3,505
Sub-total	349,461	378,389
<i>Less:</i>		
2. Government's holdings of unmatured debt	1,020	1,058
3. Total	348,441	377,331
4. Payable in foreign currencies:		
Marketable bonds	3,437	2,858
Notes and loans	7	0
Canada bills	0	2,552
Sub-total	3,444	5,410
5. Total unmatured debt	351,885	382,741

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\$0.9 billion in 1991-92. Foreign exchange transactions are primarily directed towards promoting orderly conditions in the Canadian dollar exchange market. As a result, total financial requirements amounted to \$26.8 billion, down \$4.1 billion from the 1991-92 requirement. Unmatured debt transactions amounted to \$28.9 billion in 1992-93, down \$0.2 billion from 1991-92. Cash balances at March 31, 1993 stood at \$2.9 billion, up \$2.1 billion from March 31, 1992.

The Debt Servicing and Reduction Account

On June 18, 1992, Royal Assent was granted to legislation establishing the Debt Servicing and Reduction Account. All GST revenues net of the

applicable rebates and credits, net proceeds from the sale of Crown corporations and gifts to the Crown identified for debt reduction will be credited to this Account. The revenues in this Account can be used only to pay interest on the public debt and, ultimately, the public debt.

Net GST collections amounted to \$14.9 billion in 1991-92, while interest and penalties received related to the GST amounted to \$.4 million. Gifts to the Crown, earmarked for deficit reduction, totalled \$107,000, while net proceeds from the disposition of the government's interest in Crown corporations amounted to \$110.3 million. Total proceeds credited to the Account in 1992-93 amounted to \$15.0 billion, down slightly from 1991-92.

Table 7
The Debt Servicing and Reduction Account

	1991-92	1992-93
	(thousands of dollars)	
A. Net GST collections	15,168,461	14,868,163
B. GST interest and penalties received	18,988	71,407
C. Net privatization proceeds	2,497	110,259
D. Private remittances	389	107
E. Total	15,190,335	15,049,936

For further information contact: P. DeVries at 996-7397. Cet imprimé est également offert en français.



Department of Finance
Canada

Ministère des Finances
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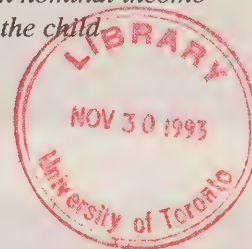
Quarterly Fiscal Monitor

A Publication of the Department of Finance

November 1993

Highlights of financial results for April 1993 to September 1993

- The deficit in September 1993 was estimated at \$2.1 billion, up \$0.2 billion from September 1992. All of the year-over-year increase was due to lower budgetary revenues.*
- The deficit in the first six months of fiscal year 1993-94 (April to September), on a public accounts basis, amounted to \$20.7 billion, \$2.2 billion higher than that recorded in the corresponding period of 1992-93.*
- The increase in the deficit, on a year-to-date basis, was attributable to substantially lower budgetary revenues, down \$3.6 billion on a year-over-year basis, in part due to the weakness in nominal income growth and in part due to the transitional costs associated with the restructuring of the child benefit system.*



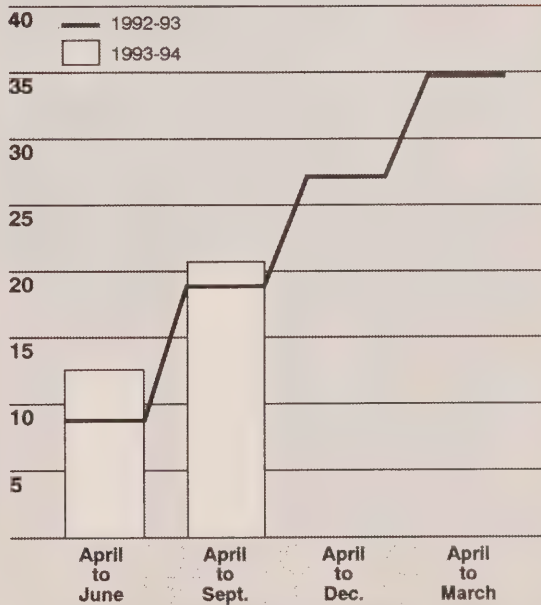
Summary

In the first six months of fiscal year 1993-94 (April to September), the budgetary deficit was \$20.7 billion, \$2.2 billion higher than that recorded in the corresponding period of 1992-93. This increase in the deficit, on a year-over-year basis, was entirely due to lower revenues, as both program spending and public debt charges were lower than recorded in the same period last year. The decline to date in budgetary revenues primarily resulted from the weakness in nominal income growth, both in 1992 and 1993. This has resulted in higher personal income tax refunds and lower taxes owing on filing with respect to the 1992 taxation year and slower-than-expected growth in revenue collections this year. In addition, transitional costs associated with the restructuring of the child benefit system have put upward pressure on the deficit in the first six months of 1993-94, as personal income tax refunds paid to date are still affected by the child tax expenditure provisions under the previous system.

The federal deficit 1992-93 and 1993-94

Year to date

billions of dollars



Quarterly Fiscal Monitor

Table 1
Summary statement of transactions

	September		April to September	
	1992	1993	1992-93	1993-94
(in millions of dollars)				
A. Budgetary transactions				
Revenues	11,067	10,171	56,166	52,599
Program spending	-9,824	-9,286	-55,147	-54,230
Operating surplus	1,243	886	1,019	-1,631
Public debt charges	-3,199	-3,024	-19,587	-19,104
Deficit	-1,956	-2,139	-18,568	-20,735
B. Non-budgetary transactions	-199	625	-808	2,180
C. Financial requirements (excluding foreign exchange transactions)	-2,155	-1,514	-19,376	-18,555
D. Foreign exchange transactions: net source (+) / requirement (-)	3,451	-1,156	4,053	2,507
E. Total financial requirements	1,296	-2,670	-15,323	-16,048
F. Unmatured debt transactions	1,821	679	18,225	14,286

Program spending was lower in the first six months of 1993-94, compared to the same period last year, primarily due to the replacement of the monthly family allowance benefit payment by the child tax benefit and to lower unemployment insurance benefit payments.

Excluding the impact of the introduction of the child tax benefit on both budgetary revenues and program spending, the deficit would have been \$1.2 billion lower in the first six months of 1993-94 from that currently reported.

Public debt charges were also lower, reflecting the impact of lower interest rates.

Financial requirements, excluding foreign exchange transactions, amounted to \$18.6 billion in the first six months of 1993-94, down \$0.8 billion from that recorded in the first six months of 1992-93. Foreign exchange transactions in the first six months of 1993-94 resulted in a

net source of funds amounting to \$2.5 billion, compared to \$4.1 billion in the same period last year. As a result, total financial requirements, including foreign exchange transactions, were \$16.0 billion for the first six months of 1993-94, up \$0.7 billion from the first six months of 1992-93. Unmatured debt transactions, at \$14.3 billion were \$3.9 billion lower than in the corresponding period of 1992-93.

The deficit outcome for fiscal year 1993-94 will be dependent upon economic developments, interest rates, and the timing of policy measures. However, economic and fiscal data, that have become available since the April 1993 budget, indicate that the level of nominal income is lower-than-expected, which is resulting in slower-than-expected revenue growth. Revenue developments to date have also been negatively affected by higher refunds and lower taxes paid on filing with respect to the 1992 taxation year. While it is still too early to fully assess the net impact of these developments on the government's

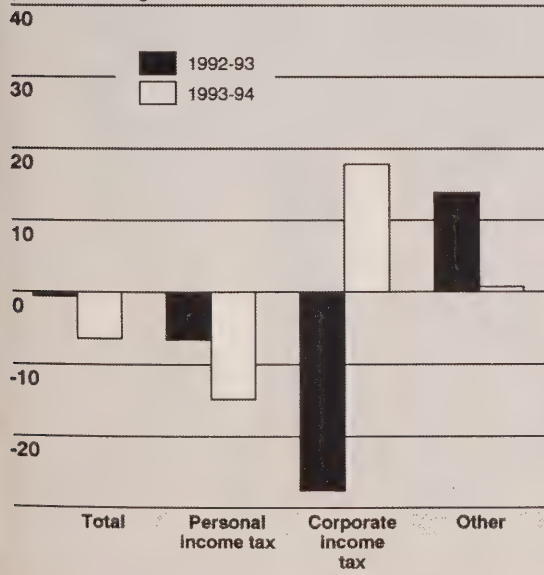
Table 2
Budgetary revenues: April to September

	1992-93	1993-94	Per cent change
	(in millions of dollars)		(%)
A. Income taxes			
1. Personal income tax	28,970	24,729	-14.6
2. Corporate income tax	2,790	3,265	17.0
3. Unemployment insurance contributions	9,196	9,441	2.7
4. Non-resident tax	489	571	16.8
5. Total income tax	41,445	38,006	-8.3
B. Excise taxes and duties			
1. Goods and Services Tax	6,375	7,034	10.3
2. Customs import duties	2,008	1,579	-21.4
3. Sales and excise taxes	3,714	3,425	-7.9
4. Total excise taxes and duties	12,097	12,038	-0.8
C. Other			
1. Other tax revenue	107	121	13.1
2. Non-tax revenue	2,517	2,434	-3.3
3. Total other revenues	2,624	2,555	-2.6
D. Total budgetary revenues	56,166	52,599	-6.4

Budgetary revenues 1992-93 and 1993-94

April to September
Year-over-year growth

per cent change



financial situation for 1993-94, the deficit will exceed the level projected at the time of the April 1993 budget.

Budgetary revenues

During the first six months of 1993-94, budgetary revenues declined by \$3.6 billion or 6.4 per cent on a year-over-year basis. This decline was primarily attributable to developments affecting personal income tax collections, which were down \$4.2 billion on a year-over-year basis. Part of the decline in budgetary revenues to date was due to the introduction of the child tax benefit, which is netted against personal income tax collections. Excluding the impact of the child tax benefit, budgetary revenues were down 1.8 per cent, on a year-over-year basis.

The year-over-year decline in personal income tax revenues reflects the combination of a number of factors, including the impact of the child tax

benefit, the lagged effects of the weakness in income growth in 1992 and the continued sluggishness in income growth in 1993. The child tax benefit replaced the monthly family allowance benefit, which was part of program spending, and the refundable child tax credit and the non-refundable dependent child credit, both of which were netted against personal income tax collections. The child tax benefit also includes an earned-income supplement. In the first six months, \$2.6 billion has been paid out under the child tax benefit, which was netted against personal income tax collections. However, refunds and taxes paid on filing in the first six months of 1993-94, which pertain to taxation year 1992, were still affected by the payment of the child tax credit and child credit, thereby further dampening personal income tax collections to date. In addition, liabilities with respect to the 1992 taxation year were lower than expected. As a result, when individuals filed their tax returns in the spring of 1993, taxes paid on filing were lower and refunds higher, thus lowering overall collections in the first half of 1993-94, vis-à-vis year earlier collections. Finally, the July 1992 and January 1993 reductions in the surtax, as announced in the February 1992 budget, have also served to reduce personal income tax collections to date.

The year-over-year increase in corporate income tax collections was largely attributable to abnormally high refunds in the first six months of 1992-93. Excluding the impact of refunds, corporate income tax instalment payments were down marginally on a year-over-year basis. Corporate profits were up over 16 per cent in the first six months of 1993 and are expected to continue to increase. However, corporate income tax collections are expected to increase more slowly than profits as corporations use losses incurred in previous years to reduce taxes otherwise payable.

Total excise taxes and duties declined by 0.8 per cent, with significant differences among the various components. Collections under the Goods and Services Taxes (GST) were up 10.3 per cent, on a year-over-year basis. Part of this increase was attributable to collection lags

experienced last year due to the harmonization of collection activities in the province of Québec, and to the timing of receipts and refunds. In contrast, customs import duties were down 21.4 per cent, in part reflecting reductions in tariffs under the Canada-United States Free Trade Agreement. Sales and excise taxes were down 7.9 per cent, primarily due to reduced domestic tax-paid sales of tobacco products.

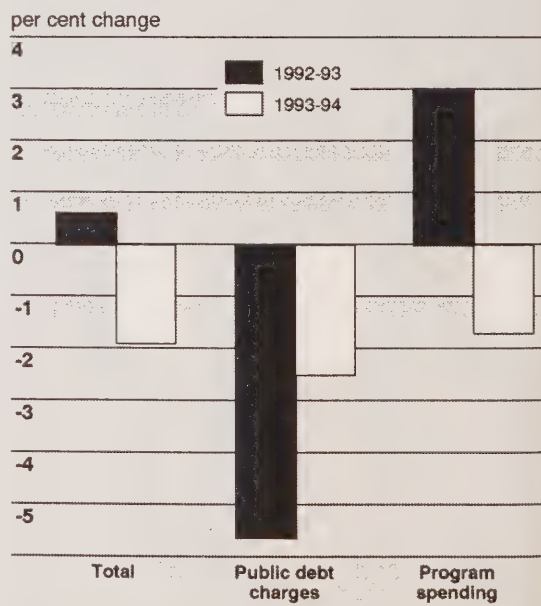
Budgetary expenditures

In the first six months of 1993-94, budgetary expenditures declined by 1.9 per cent on a year-over-year basis. Public debt charges, the largest single component of budgetary expenditures, were 2.5 per cent lower. The decline in public debt charges reflects the impact of the declines in interest rates, especially short-term rates.

Program spending declined by 1.7 per cent in the first six months of 1993-94, compared to the same period in 1992-93. This decline reflects the

Budgetary expenditures 1992-93 and 1993-94

April to September
Year-over-year growth



Quarterly Fiscal Monitor

Table 3
Budgetary expenditures: April to September

	1992-93	1993-94	Per cent change
	(in millions of dollars)		(%)
A. Transfer payments to:			
1. Persons:			
Elderly benefits	9,451	9,843	4.1
Unemployment insurance benefits	9,004	8,473	-5.9
Family allowances	1,453	21	-98.5
Veterans' pensions/allowances	715	709	-0.8
Other	52	47	-11.1
Total	20,676	19,094	-7.7
2. Other levels of government			
Established Programs Financing	4,073	4,678	14.9
Fiscal transfers	5,144	5,197	1.0
Canada Assistance Plan	3,814	3,948	3.5
Total	13,031	13,821	6.1
3. Other			
Agricultural subsidies	925	585	-36.8
Indian and Inuit programs	1,581	1,767	11.8
Regional development	324	230	-29.1
Science and technology	414	385	-6.8
International assistance	973	913	-6.2
Other	2,211	1,741	-21.3
Total	6,428	5,621	-12.6
4. Total transfers	40,135	38,536	-4.0
B. Payments to Crown corporations			
1. Canadian Broadcasting Corporation	607	595	-2.0
2. Canada Mortgage and Housing Corporation	811	860	6.0
3. Other	753	741	-1.6
4. Total	2,171	2,196	1.2
C. Operating and capital expenditures			
1. Defence	4,501	4,958	10.2
2. All other departmental expenditures	8,340	8,540	2.4
3. Total	12,841	13,498	5.1
D. Total program expenditures	55,147	54,230	-1.7
E. Public debt charges	19,587	19,104	-2.5
F. Total budgetary expenditures	74,734	73,334	-1.9

replacement of the monthly family allowance benefit payments with the child tax benefit. As the child tax benefit is administered through the *Income Tax Act* and represents a reduction in personal income taxes, it is netted against personal income tax revenues and is not included as part of program spending. Adjusting the results for the impact of the elimination of the family allowance benefits, program spending, in the first six months, would have increased 0.9 per cent over the same period last year.

The decline in major transfers to persons was largely due to the replacement of family allowance benefit payments by the child tax benefit. Unemployment insurance benefit payments were lower, reflecting a decline in the number of persons eligible for unemployment insurance benefits and the impact of the December 1992 Economic and Fiscal Statement measures. The latter reduced the benefit rate for new beneficiaries from 60 per cent to 57 per cent of maximum insurable earnings, effective April 1993, and excluded those who quit their jobs without just cause. Elderly benefit payments were higher, reflecting increases in average benefits, which are indexed to quarterly changes in the consumer price index, and the eligible population.

Transfers to other levels of government were up 6.1 per cent in the first six months of 1993-94, compared to the same period last year. Slow growth in the applicable tax bases has resulted in higher cash payments under Established Programs Financing (EPF). Under the Expenditure Control Plan, first introduced in the February 1990 budget and extended in the February 1991 budget, total EPF entitlements to provinces are limited to reflect changes in population only, implying a growth of about 1 per cent. EPF entitlements are paid in the form of tax point transfers and cash. The increase in cash transfers in the first six months of 1993-94 reflects the downward revisions to the applicable

tax bases, which lowered the value of both prior-year and current-year tax point transfers. Fiscal transfers include Equalization, transfers to the territorial governments, grants to municipal governments in lieu of taxes, transfers under the *Public Utilities Income Tax Transfer Act* and payments under the Stabilization and statutory programs. Equalization transfers are being restrained, given the weakness in income growth in the non-equalization receiving provinces.

The timing of payments primarily explains the large year-over-year fluctuations in the components within other transfers. Similarly, the timing of capital payments resulted in higher defence spending. The operating and capital expenditures of other government departments increased by 2.4 per cent on year-over-year basis.

Financial requirements

Non-budgetary transactions in the first six months of 1993-94 resulted in a net source of funds amounting to \$2.2 billion, compared to a requirement of \$0.8 billion recorded in the corresponding period of 1992-93. The lower requirement primarily reflects the repayment of loans by Crown corporations. As a result, financial requirements, excluding foreign exchange transactions, amounted to \$18.6 billion in the first six months of 1993-94, down \$0.8 billion from the requirements in 1992-93.

Foreign exchange transactions resulted in a net source of funds of \$2.5 billion, compared to a source of \$4.1 billion in the first six months of 1992-93. Total financial requirements, therefore, amounted to \$16.0 billion in the first six months of 1993-94, up \$0.7 billion from the 1992-93 requirements. The 1993-94 requirements were financed through unmatured debt transactions of \$14.3 billion and a drawdown in cash balances of \$1.8 billion.

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Table 4
Non-budgetary transactions: April to September

	1992-93	1993-94
	(in millions of dollars)	
Loans, investments, and advances		
Crown corporations	-354	1,027
Other	-218	-107
Total	-572	920
Specified purpose accounts		
Canada Pension Plan Account	-9	1,423
Superannuation accounts	1,589	2,070
Other	-1,495	-843
Total	85	2,650
Other transactions	-321	-1,390
Total non-budgetary transactions	-808	2,180

Table 5
Foreign exchange and unmatured debt transactions: April to September

	1992-93	1993-94
	(in millions of dollars)	
Foreign exchange transactions		
Net international reserves	4,880	395
Unmatured debt transactions payable in foreign currencies	-827	2,112
Total	4,053	2,507
Unmatured debt transactions		
Marketable bonds	9,556	11,819
Canada Savings Bonds	-2,000	-1,816
Treasury bills	9,000	3,400
Other	—	2,107
Sub-total	16,556	15,510
<i>Less:</i>		
Government's holding of unmatured debt	842	888
Unmatured debt transactions payable in foreign currency	827	-2,112
Sub-total	1,669	-1,224
Total unmatured debt transactions payable in Canadian dollars	18,225	14,286

Quarterly Fiscal Monitor

Table 6
Cash, unmatured debt and debt balances: at September 30

	1992	1993
	(in millions of dollars)	
Cash balances at end of period		
In Canadian dollars	3,466	1,072
In foreign currencies	211	47
Total cash balance	3,677	1,119
Unmatured debt balance		
Payable in Canadian dollars –		
Marketable bonds	168,439	190,283
Canada Savings Bonds	33,597	32,553
Treasury bills	161,300	165,450
Other	3,509	3,500
Sub-total	366,845	391,786
<i>Less:</i>		
Government's holdings of unmatured debt	207	147
Total	366,638	391,639
Payable in foreign currencies –		
Marketable bonds	2,617	2,858
Notes and loans	0	0
Canada bills	0	4,664
Sub-total	2,617	7,522
<i>Less:</i>		
Government's holdings of unmatured debt	0	0
Total unmatured debt	369,255	399,161

The information in this Monitor is based on preliminary financial results for the quarter ended September 30, 1993.
For further information contact: P. DeVries at 996-7397. Cet imprimé est également offert en français.



Department of Finance
Canada

Ministère des Finances
Canada

Monthly Fiscal Monitor

A Publication of the Department of Finance

December 1993

Highlights of the financial results for October 1993

The deficit in October 1993 was estimated at \$3.9 billion, unchanged from October 1992.

- Budgetary revenues were down 1.3 per cent, on a year-over-year basis, primarily due to higher proceeds from asset sales in October 1992 and increased payments under the GST low-income credit in October 1993.
- Program spending was up 1.6 per cent, largely attributable to higher transfers to provinces and increased contributions to federal employees' insurance plans.
- Public debt charges fell 8.4 per cent, due to the impact of lower interest rates on the costs of servicing the national debt.

In the first seven months of 1993-94, the deficit amounted to \$24.6 billion, up \$2.2 billion on a year-over-year basis.

- Budgetary revenues were down 5.7 per cent, reflecting the restructuring of the child benefit system, effective January 1993, and the weakness in 1992 taxable income, which resulted in lower taxes owing on filing and higher refunds in the first few months of 1993-94.

(continued on page 4)

Table 1
Government of Canada
Summary statement of financial transactions¹

	October		April to October	
	1992	1993	1992-93	1993-94
(in millions of dollars)				
Budgetary transactions				
Revenues	8,739	8,622	64,944	61,221
Program spending	-9,370	-9,516	-64,554	-63,747
Operating balance	-631	-894	390	-2,526
Public debt charges	-3,258	-2,983	-22,846	-22,086
Deficit	-3,889	-3,877	-22,456	-24,612
Non-budgetary transactions	754	670	-53	2,850
Financial requirements (excluding foreign exchange transactions)	-3,135	-3,207	-22,509	-21,762
Foreign exchange transactions	1,502	500	5,555	3,007
Financial requirements	-1,633	-2,707	-16,954	-18,755
Unmatured debt transactions	916	4,519	19,141	18,805

Note: Data compiled by the Receiver General for Canada.

¹ (+) indicates a source of funds, while (-) indicates a requirement for funds.

Monthly Fiscal Monitor

Table 2
Government of Canada
Detailed statement of budgetary transactions

	October		April to October	
	1992	1993	1992-93	1993-94
(in millions of dollars)				
Revenues				
Personal income tax	4,092	4,373	33,062	29,102
Corporate income tax	545	501	3,335	3,766
Unemployment insurance contributions	1,471	1,500	10,705	10,941
Non-resident tax	88	101	578	673
Total income tax	6,196	6,475	47,680	44,482
Excise taxes and duties				
Goods and Services Tax	822	753	7,197	7,788
Customs import duties	253	310	2,261	1,889
Sales and excise taxes	626	649	4,341	4,074
Total excise taxes/duties	1,701	1,712	13,799	13,751
Other tax revenue	14	54	120	175
Total tax revenue	7,911	8,241	61,599	58,408
Non-tax revenue	828	381	3,345	2,813
Total budgetary revenues	8,739	8,622	64,944	61,221
Expenditures				
Transfer payments to:				
Persons –				
Elderly benefits	1,605	1,664	11,056	11,508
Unemployment insurance benefits	1,315	1,172	10,319	9,644
Other	375	138	2,595	915
Total	3,295	2,974	23,970	22,067
Other levels of government:				
Established Programs Financing	670	790	4,743	5,468
Fiscal transfers	822	697	5,967	5,919
Canada Assistance Plan	722	894	4,536	4,840
Total	2,214	2,381	15,246	16,227
Other				
Agriculture	88	77 *	985	665
Indian and Inuits	192	228	1,773	1,995
Regional development	72	78	396	308
Science and technology	96	107	510	492
International assistance	285	271	1,258	1,184
Other	401	425	2,646	1,997
Total	1,134	1,186	7,568	6,641
Total transfers	6,643	6,541	46,784	44,935
Payments to Crown corporations	416	392	2,571	2,588
Operating and capital expenditures				
Defence	957	971	5,463	5,989
All other departmental expenditures	1,354	1,612	9,736	10,235
Total	2,311	2,583	15,199	16,224
Total program spending	9,370	9,516	64,554	63,747
Public debt charges	3,258	2,983	22,846	22,086
Total budgetary expenditures	12,628	12,499	87,400	85,833

Monthly Fiscal Monitor

Table 3
Government of Canada
Non-budgetary transactions

	October		April to October	
	1992	1993	1992-93	1993-94
(in millions of dollars)				
Loans, investments, and advances				
Crown corporations	-14	63	-368	1,090
Other	209	-33	-9	-140
Total	195	30	-377	950
Specified purpose accounts				
Canada Pension Plan Account	9	-253	—	1,170
Superannuation accounts	-343	-107	1,246	1,963
Other	27	-167	-1,468	-1,010
Total	-307	-527	-222	2,123
Other transactions	866	1,167	546	-223
Total non-budgetary transactions	754	670	-53	2,850

Table 4
Government of Canada
Foreign exchange and unmatured debt transactions

	October		April to October	
	1992	1993	1992-93	1993-94
(in millions of dollars)				
Foreign exchange transactions				
Net international reserves	1,502	-681	6,382	-286
Unmatured debt transactions payable in foreign currencies	—	1,181	-827	3,293
Total	1,502	500	5,555	3,007
Unmatured debt transactions				
Marketable bonds	2,800	874	12,357	12,693
Canada Savings Bonds	-362	-332	-2,362	-2,148
Treasury bills	-1,600	3,850	7,400	7,250
Other	—	1,223	-1	3,330
Sub-total	838	5,615	17,394	21,125
<i>Less:</i>				
Government's holding of unmatured debt	78	85	920	973
Unmatured debt transactions payable in foreign currencies	—	-1,181	827	-3,293
Sub-total	78	-1,096	1,747	-2,320
Total unmatured debt transactions payable in Canadian dollars	916	4,519	19,141	18,805

Monthly Fiscal Monitor

Table 5
Government of Canada
Cash, unmatured debt and debt balances

	At October 31	
	1992	1993
	(in millions of dollars)	
Cash balances		
In Canadian dollars	2,720	2,894
In foreign currencies	241	36
Total cash balance	2,961	2,930
Unmatured debt balance		
Payable in Canadian dollars –		
Marketable bonds	171,239	191,158
Canada Savings Bonds	33,235	32,221
Treasury bills	159,700	169,300
Other	3,508	3,542
Sub-total	367,682	396,221
Less:		
Government's holdings of unmatured debt	129	62
Total	367,553	396,159
Payable in foreign currencies –		
Marketable bonds	2,617	2,858
Notes and loans	0	0
Canada bills	0	5,845
Sub-total	2,617	8,703
Less:		
Government's holdings of unmatured debt	0	0
Total unmatured debt	370,170	404,862

(continued from page 1)

- Program spending was 1.3 per cent lower in April-October 1993 than in April-October 1992, due to the elimination of family allowance payments resulting from the restructuring of the child benefit system, lower unemployment insurance benefit payments, and the restraint measures introduced in the December 1992 Economic and Fiscal Statement. Lower spending in these areas was partially offset by increased elderly benefit payments, higher transfers to provinces under Established Programs Financing and Canada Assistance Plan and increased spending on defence and government operations.
- Public debt charges declined 3.3 per cent, reflecting the impact of lower interest rates.

For further information on the contents of this publication, contact Peter DeVries at (613) 996-7397. Subscription inquiries should be directed to the Distribution Centre, Department of Finance, 300 Laurier Ave. West, Ottawa, Ont. K1A 0G5.
Tel.: (613) 995-2855. Fax: (613) 996-0518. Cet imprimé est également offert en français.



Monthly Fiscal Monitor

A Publication of the Department of Finance

January 1994

The deficit in November 1993 was estimated at \$2.0 billion, down \$0.6 billion from November 1992.

- Budgetary revenues were down 1.7 per cent, on a year-over-year basis, primarily due to lower GST revenues reflecting higher refunds and rebates.
- Program spending was down 5.9 per cent, largely attributable to lower transfers to provinces for Established Programs Financing, the restructuring of the child benefit system, and lower unemployment insurance benefit payments.
- Public debt charges fell 7.3 per cent, due to the impact of lower interest rates on the costs of servicing the national debt.

In the first eight months of 1993-94 (April to November), the deficit amounted to \$26.6 billion, up \$1.5 billion on a year-over-year basis.

- Budgetary revenues were down 5.2 per cent, reflecting the restructuring of the child benefit system, effective January 1993, and the weakness in 1992 taxable income, which resulted in lower taxes owing on filing and higher refunds in the first few months of 1993-94.

(continued on page 4)

Table 1
Government of Canada
Summary statement of financial transactions¹

	November		April to November	
	1992	1993	1992-93	1993-94
(in millions of dollars)				
Budgetary transactions				
Revenues	10,361	10,180	75,305	71,400
Program spending	-9,799	-9,223	-74,352	-72,970
Operating balance	562	957	953	-1,570
Public debt charges	-3,229	-2,993	-26,075	-25,079
Deficit	-2,667	-2,036	-25,122	-26,649
Non-budgetary transactions	-1,054	-1,330	-1,107	1,521
Financial requirements (excluding foreign exchange transactions)	-3,721	-3,366	-26,229	-25,128
Foreign exchange transactions	4,530	1,295	10,085	4,302
Financial requirements	809	-2,071	-16,144	-20,826
Unmatured debt transactions	-501	1,288	18,640	20,092

Note: Data compiled by the Receiver General for Canada.

¹ (+) indicates a source of funds, while (-) indicates a requirement for funds.

Monthly Fiscal Monitor

Table 2
Government of Canada
Detailed statement of budgetary transactions

	November		April to November	
	1992	1993	1992-93	1993-94
(in millions of dollars)				
Revenues				
Personal income tax	4,731	4,671	37,793	33,774
Corporate income tax	663	800	3,997	4,567
Unemployment insurance contributions	1,463	1,427	12,168	12,368
Non-resident tax	111	95	689	768
Total income tax	6,968	6,993	54,647	51,477
Excise taxes and duties				
Goods and Services Tax	1,985	1,733	9,182	9,520
Customs import duties	367	400	2,627	2,289
Sales and excise taxes	666	716	5,007	4,790
Total excise taxes/duties	3,018	2,849	16,816	16,599
Other tax revenue	14	9	135	184
Total tax revenue	10,000	9,851	71,598	68,260
Non-tax revenue	361	329	3,707	3,140
Total budgetary revenues	10,361	10,180	75,305	71,400
Expenditures				
Transfer payments to:				
Persons –				
Elderly benefits	1,605	1,673	12,662	13,181
Unemployment insurance benefits	1,399	1,314	11,719	10,958
Other	378	131	2,973	1,046
Total	3,382	3,119	27,354	25,186
Other levels of government:				
Established Programs Financing	1,036	891	5,779	6,359
Fiscal transfers	653	682	6,620	6,614
Canada Assistance Plan	717	805	5,253	5,645
Total	2,406	2,378	17,652	18,618
Other				
Agriculture	220	154 "	1,194	822
Indians and Inuits	196	195	1,969	2,190
Regional development	71	76	467	384
Science and technology	51	46	561	539
International assistance	158	176	1,416	1,360
Other	-241	327	2,413	2,310
Total	455	974	8,021	7,605
Total transfers	6,243	6,471	53,027	51,408
Payments to Crown corporations	369	336	2,940	2,924
Operating and capital expenditures				
Defence	1,556	858	7,019	6,847
All other departmental expenditures	1,632	1,559	11,367	11,791
Total	3,188	2,417	18,386	18,638
Total program spending	9,799	9,223	74,352	72,970
Public debt charges	3,229	2,993	26,075	25,079
Total budgetary expenditures	13,028	12,216	100,427	98,049

Monthly Fiscal Monitor

Table 3
Government of Canada
Non-budgetary transactions

	November		April to November	
	1992	1993	1992-93	1993-94
(in millions of dollars)				
Loans, investments, and advances				
Crown corporations	136	-519	-232	571
Other	-32	32	-41	-108
Total	104	-487	-273	463
Specified purpose accounts				
Canada Pension Plan Account	-259	-846	-259	325
Superannuation accounts	1,495	1,493	2,741	3,456
Other	335	126	-1,133	-885
Total	1,571	773	1,349	2,896
Other transactions	-2,729	-1,616	-2,183	-1,838
Total non-budgetary transactions	-1,054	-1,330	-1,107	1,521

Table 4
Government of Canada
Foreign exchange and unmatured debt transactions

	November		April to November	
	1992	1993	1992-93	1993-94
(in millions of dollars)				
Foreign exchange transactions				
Net international reserves	4,530	1,962	10,912	1,677
Unmatured debt transactions payable in foreign currencies	-	-667	-827	2,625
Total	4,530	1,295	10,085	4,302
Unmatured debt transactions				
Marketable bonds	800	1,092	13,157	13,784
Canada Savings Bonds	3,266	934	904	-1,214
Treasury bills	-3,100	-400	4,300	6,850
Other	-	400	-1	3,729
Sub-total	966	2,026	18,360	23,149
Less:				
Government's holding of unmatured debt	-1,467	-1,405	-547	-432
Unmatured debt transactions payable in foreign currencies	-	667	827	-2,625
Sub-total	-1,467	-738	280	-3,057
Total unmatured debt transactions payable in Canadian dollars	-501	1,288	18,640	20,092

Monthly Fiscal Monitor

Table 5
Government of Canada
Cash, unmatured debt and debt balances

	at November 30	
	1992	1993
	(in millions of dollars)	
Cash balances		
In Canadian dollars	2,990	2,074
In foreign currencies	280	73
Total cash balance	3,270	2,147
Unmatured debt balance		
Payable in Canadian dollars –		
Marketable bonds	172,039	193,058
Canada Savings Bonds	36,502	33,154
Treasury bills	156,600	168,900
Other	3,508	3,800
Sub-total	368,649	398,912
Less:		
Government's holdings of unmatured debt	1,595	1,467
Total	367,054	397,445
Payable in foreign currencies –		
Marketable bonds	2,617	2,049
Notes and loans	0	0
Canada bills	0	5,986
Sub-total	2,617	8,035
Less:		
Government's holdings of unmatured debt	0	0
Total unmatured debt	369,671	405,480

(continued from page 1)

- Program spending was 1.9 per cent lower in April-November 1993 than in April-November 1992, due to the elimination of family allowance payments resulting from the restructuring of the child benefit system, lower unemployment insurance benefit payments, and the restraint measures introduced in the December 1992 Economic and Fiscal Statement. Lower spending in these areas was partially offset by increased elderly benefit payments, higher transfers to provinces under Established Programs Financing and Canada Assistance Plan and increased spending on government operations.
- Public debt charges declined 3.8 per cent in the first eight months, reflecting the impact of lower interest rates.

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Monthly Fiscal Monitor

A Publication of the Department of Finance

Government
Publication

Highlights of the financial results for February 1994

The deficit in February 1994 was estimated at \$2.4 billion, down \$0.7 billion from February 1993.

- The year-over-year improvement in the deficit was primarily attributable to public debt charges. They fell by 21.0 per cent, due to the impact of lower interest rates and net gains resulting from the reopening of certain marketable bonds.
- Budgetary revenues declined by 1.5 per cent in February 1994, primarily due to a 23.8 per cent year-over-year decline in personal income tax collections. As noted in the 1994 budget, part of the expected decline in personal income tax collections for 1993-94 was attributable to an extraordinary recovery of overpayments from the Provincial Tax Collection Account in 1992-93, which occurred in February 1993 and is not expected to be repeated in 1993-94.
- The overall decline in revenues would have been larger had it not been for delays in the receipt of sales and excise tax revenues in February 1993 due to changes in the remittance procedures in that month. Revenues normally received in February were remitted in March 1993 instead. Traditional remittance procedures were followed in February 1994, thereby accounting for the large year-over-year increase in sales and excise tax collections. This will have no effect on the final fiscal year results.
- Program spending was down 1.9 per cent, largely attributable to lower unemployment insurance benefit payments and lower transfers to provinces.

In the first eleven months of 1993-94 (April 1993 to February 1994), the deficit amounted to \$33.5 billion, \$1.0 billion lower than in the same period last year.

- Budgetary revenues were down 3.1 per cent, primarily reflecting the impact of the restructuring of the child benefit system and the resulting netting of the Child Tax Benefit from personal income tax collections.
- Program spending declined by 2.5 per cent, due largely to the restructuring of the child benefit system and lower unemployment insurance benefit payments.
- Public debt charges declined by 4.7 per cent, reflecting the impact of lower interest rates and net gains realized on the reopening of certain marketable bonds.

The financial results to date are somewhat better than anticipated. However, given uncertainties as to year-end accounting adjustments, it is still too early to assess what impact this will have on the full year fiscal results.



Monthly Fiscal Monitor

Table 1
Government of Canada
Summary statement of financial transactions¹

	February		April to February	
	1993	1994	1992-93	1993-94
(in millions of dollars)				
Budgetary transactions				
Revenues	9,327	9,186	105,084	101,837
Program spending	-9,077	-8,900	-103,574	-101,020
Operating balance	250	286	1,510	817
Public debt charges	-3,355	-2,649	-36,036	-34,336
Deficit	-3,105	-2,363	-34,526	-33,519
Non-budgetary transactions	560	1,253	604	4,427
Financial requirements (excluding foreign exchange transactions)	-2,545	-1,110	-33,922	-29,092
Foreign exchange transactions	2,477	1,611	12,073	2,289
Financial requirements	-68	501	-21,849	-26,803
Unmatured debt transactions	421	580	22,495	25,604

Note: Data compiled by the Receiver General of Canada.

¹ (+) indicates a source of funds, while (-) indicates a requirement for funds.

Table 2
Government of Canada
Detailed statement of budgetary transactions – expenditures

	February		April to February	
	1993	1994	1992-93	1993-94
(in millions of dollars)				
Expenditures				
Transfer payments to:				
Persons –				
Elderly benefits	1,611	1,682	17,486	18,212
Unemployment insurance benefits	1,764	1,595	16,997	15,689
Other	148	140	3,622	1,441
Total	3,523	3,417	38,105	35,342
Other levels of government:				
Established Programs Financing	914	759	8,521	8,638
Fiscal transfers	720	642	8,752	8,517
Canada Assistance Plan	292	327	6,391	6,764
Total	1,926	1,728	23,664	23,919
Other				
Agriculture	78	85	1,466	1,414
Indian and Inuits	145	141	2,441	2,711
Regional development	80	71	696	521
Science and technology	122	143	857	699
International assistance	210	173	2,024	1,859
Other	264	374	4,275	4,452
Total	899	987	11,759	11,656
Total transfers	6,348	6,132	73,528	70,917
Payments to Crown corporations	323	295	4,218	4,123
Operating and capital expenditures				
Defence	919	876	9,365	9,367
All other departmental expenditures	1,487	1,597	16,463	16,613
Total	2,406	2,473	25,828	25,980
Total program spending	9,077	8,900	103,574	101,020
Public debt charges	3,355	2,649	36,036	34,336
Total budgetary expenditures	12,432	11,549	139,610	135,356

Monthly Fiscal Monitor

Table 3
Government of Canada
Detailed statement of budgetary transactions – revenues

	February		April to February	
	1993	1994	1992-93	1993-94
(in millions of dollars)				
Revenues				
Personal income tax	4,913	3,742	54,282	48,794
Corporate income tax	819	1,091	6,187	7,321
Unemployment insurance contributions	1,499	1,555	16,213	16,760
Non-resident tax	98	118	1,106	1,164
Total income tax	7,329	6,506	77,788	74,039
Excise taxes and duties				
Goods and Services Tax	1,185	1,668	12,256	13,457
Customs import duties	90	319	3,233	3,174
Sales and excise taxes	515	559	6,701	6,538
Total excise taxes/duties	1,790	2,546	22,190	23,169
Other tax revenue	11	12	197	234
Total tax revenue	9,130	9,064	100,175	97,442
Non-tax revenue	197	122	4,909	4,395
Total budgetary revenues	9,327	9,186	105,084	101,837

Table 4
Government of Canada
Non-budgetary transactions

	February		April to February	
	1993	1994	1992-93	1993-94
(in millions of dollars)				
Loans, investments, and advances				
Crown corporations	111	12	-1,308	531
Other	-9	-54	-11	-105
Total	102	-42	-1,319	426
Specified purpose accounts				
Canada Pension Plan Account	167	119	-719	-475
Superannuation accounts	-251	-119	4,940	5,372
Other	-1,447	-520	-939	-188
Total	-1,531	-520	3,282	4,709
Other transactions	1,989	1,815	-1,359	-708
Total non-budgetary transactions	560	1,253	604	4,427

Monthly Fiscal Monitor

Table 5
Government of Canada
Foreign exchange and unmatured debt transactions

	February		April to February	
	1993	1994	1992-93	1993-94
(in millions of dollars)				
Foreign exchange transactions				
Net international reserves	2,204	3,013	10,720	865
Unmatured debt transactions payable in foreign currencies	273	-1,402	1,353	1,424
Total	2,477	1,611	12,073	2,289
Unmatured debt transactions				
Marketable bonds	650	1,522	17,056	22,576
Canada Savings Bonds	-674	-574	-823	-2,610
Treasury bills	300	-500	5,650	4,950
Other	273	-1,402	2,178	2,226
Sub-total	549	-954	24,061	27,142
Less:				
Government's holding of unmatured debt	145	132	-213	-114
Unmatured debt transactions payable in foreign currencies	-273	1,402	-1,353	-1,424
Sub-total	-128	1,534	-1,566	-1,538
Total unmatured debt transactions payable in Canadian dollars	421	580	22,495	25,604

Table 6
Government of Canada
Cash, unmatured debt and debt balances

	at February 28	
	1993	1994
(in millions of dollars)		
Cash balances at end of period		
In Canadian dollars	1,139	1,468
In foreign currencies	282	215
Total cash balance	1,421	1,683
Unmatured debt balance		
Payable in Canadian dollars –		
Marketable bonds	175,939	201,850
Canada Savings Bonds	34,775	31,759
Treasury bills	157,950	167,000
Other	3,507	3,498
Sub-total	372,171	404,107
Less:		
Government's holdings of unmatured debt	1,234	1,172
Total	370,937	402,935
Payable in foreign currencies –		
Marketable bonds	2,617	2,049
Notes and loans	0	0
Canada bills	2,180	4,784
Sub-total	4,797	6,833
Less:		
Government's holdings of unmatured debt	0	0
Total unmatured debt	375,734	409,768



Quarterly Fiscal Monitor

A Publication of the Department of Finance

February 1994

Highlights of financial results for April 1993 to December 1993

- The deficit in December 1993 was \$0.3 billion lower than in December 1992.
- The deficit in the first nine months of fiscal year 1993-94 (April to December) was \$1.3 billion higher than that recorded in the corresponding period of 1992-93.

Summary

In the first nine months of fiscal year 1993-94 (April to December), the budgetary deficit was \$28.8 billion, \$1.3 billion higher than that recorded in the corresponding period of 1992-93. Budgetary revenues were 4.5 per cent lower in the current fiscal year compared to the same period last year, while program spending declined by 2.2 per cent. The year-over-year declines in both budgetary revenues and program spending were largely attributable to the transitional costs associated with the restructuring of the child benefit system, which came into effect January 1993. Excluding the impact of the restructuring of the child tax benefit system, the deficit in the first nine months of 1993-94 would have been virtually unchanged on a year-over-year basis.

The deficit outcome for the year as a whole is expected to be between \$44 billion and \$46 billion compared to a deficit of \$40.5 billion in 1992-93. The main factors pushing the deficit higher over the remaining months of 1993-94 are:

- faster processing of 1993 personal income tax refunds will result in an additional \$1.2 billion of refunds being processed in the February and March 1994 period;

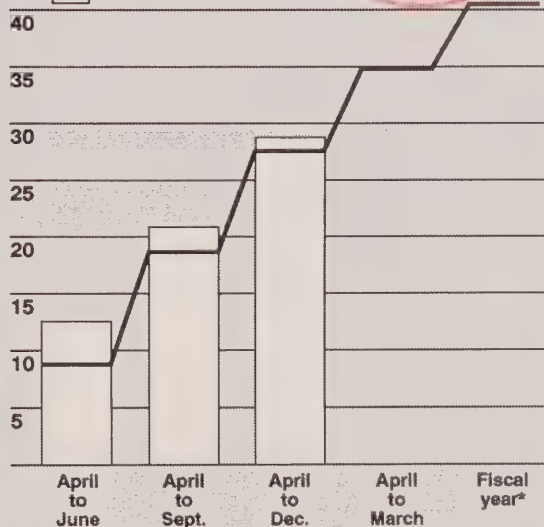
- higher corporate income tax refund liabilities due to the Supreme Court's decision not to hear the government's appeal of certain income tax issues dealing with the taxation of resource allowances; and

The federal deficit 1992-93 and 1993-94

Year to date

billions of dollars

45 — 1992-93
□ 1993-94



* Estimated.

Quarterly Fiscal Monitor

Table 1
Summary statement of transactions

	December		April to December	
	1992	1993	1992-93	1993-94
(millions of dollars)				
A. Budgetary transactions				
Revenues	11,598	11,577	86,903	82,977
Program spending	-10,730	-10,223	-85,082	-83,193
Operating surplus	868	1,354	1,821	-216
Public debt charges	-3,267	-3,476	-29,342	-28,555
Deficit	-2,399	-2,122	-27,521	-28,771
B. Non-budgetary transactions	-1,526	-223	-2,633	1,298
C. Financial requirements (excluding foreign exchange transactions)	-3,925	-2,345	-30,154	-27,473
D. Foreign exchange transactions: net source (+) / requirement (-)	221	1,425	10,306	5,727
E. Total financial requirements	-3,704	-920	-19,848	-21,746
F. Unmatured debt transactions	2,311	1,760	20,951	21,852

- increased liabilities under the Stabilization program for provincial revenue shortfalls in previous fiscal years.

The net impact of these factors alone is to push the 1993-94 deficit about \$3 billion above the final 1992-93 deficit figure of \$40.5 billion. This, combined with the higher deficit results to date, will put the deficit for 1993-94 in the range stated by the Minister of Finance last November.

Budgetary revenues

During the first nine months of 1993-94, budgetary revenues declined by \$3.9 billion or 4.5 per cent on a year-over-year basis. This decline was primarily attributable to developments affecting personal income tax collections, which were down \$4.5 billion on a year-over-year basis. Part of the decline in budgetary revenues to date was due to the introduction of the Child Tax Benefit, which is netted from personal income tax collections. Payments of \$3.9 billion were made under this program in the first nine months of 1993-94.

Budgetary revenues 1992-93 and 1993-94

April to December
Year-over-year growth

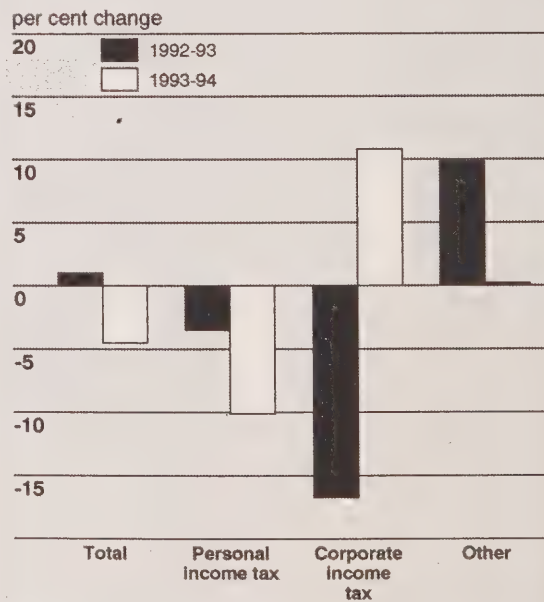


Table 2
Budgetary revenues: April to December

	1992-93	1993-94	Per cent change
	(millions of dollars)		(%)
A. Income taxes			
1. Personal income tax	44,381	39,878	-10.1
2. Corporate income tax	4,752	5,254	10.6
3. Unemployment insurance contributions	13,509	13,756	1.8
4. Non-resident tax	812	851	4.8
5. Total income tax	63,454	59,739	-5.9
B. Excise taxes and duties			
1. Goods and Services Tax	10,733	11,156	3.9
2. Customs import duties	2,966	2,602	-12.3
3. Sales and excise taxes	5,621	5,355	-4.7
4. Total excise taxes and duties	19,320	19,113	-1.1
C. Other			
1. Other tax revenue	157	201	28.0
2. Non-tax revenue	3,972	3,924	-1.2
3. Other revenues	4,129	4,125	-0.1
D. Total budgetary revenues	86,903	82,977	-4.5

In addition, refunds and taxes paid on filing pertaining to taxation year 1992 dampened net personal income tax collections in early 1993-94.

In contrast, corporate income tax collections increased 10.6 per cent in the first nine months of 1993-94, compared to the same period last year. Most of this increase, however, was attributable to abnormally high refunds in 1992-93. Although corporate profits were up significantly in 1993, corporate income tax collections are expected to increase more slowly than profits as corporations use losses incurred in previous years to reduce taxes otherwise payable.

Total excise taxes and duties declined by 1.1 per cent, with significant differences among the various components. Collections under the Goods and Services Taxes (GST) were up by 3.9 per cent, on a year-over-year basis. In contrast, customs import duties were down 12.3 per cent, in part reflecting reductions in tariffs under the Canada-United States Free Trade Agreement. Sales and excise taxes were down 4.1 per cent, primarily due to reduced domestic tax-paid sales of tobacco products.

Budgetary expenditures

In the first nine months of 1993-94, total budgetary expenditures declined by 2.3 per cent on a year-over-year basis. Public debt charges, the largest single component of budgetary expenditures, were 2.7 per cent lower. The decline in public debt charges reflects the impact of the declines in interest rates, especially short-term rates.

Program spending declined by 2.2 per cent in the first nine months of 1993-94, compared to the same period in 1992-93. As noted earlier, this decline reflects the replacement of the monthly family allowance benefit payments with the child tax benefit. Adjusting the results for the impact of the elimination of the family allowance benefits, program spending, in the first nine months, would have been 0.3 per cent up from the same period last year.

Among the major components of program spending, transfers to persons decline by 8.1 per cent, attributable to both the replacement of family allowance benefit payments by the child

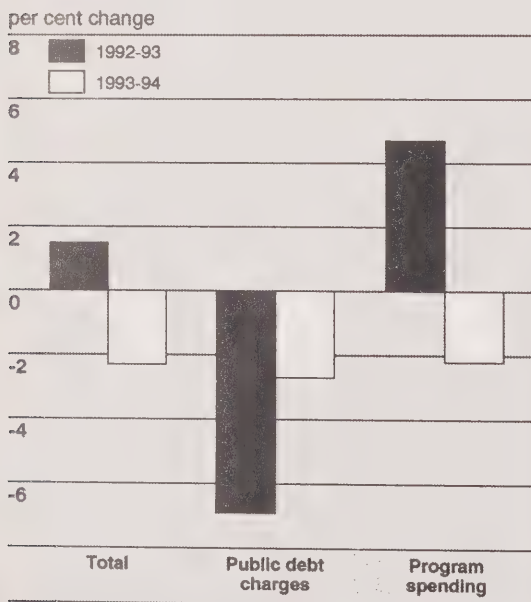
Quarterly Fiscal Monitor

tax benefit and lower unemployment insurance benefit payments. The year-over-year decline in unemployment insurance benefit payments reflects a decline in the number of persons eligible for unemployment insurance benefits and the impact of the December 1992 Economic and Fiscal Statement measures. The latter reduced the benefit rate for new beneficiaries from 60 per cent to 57 per cent of maximum insurable earnings, effective April 1993, and excluded those who quit their jobs without just cause. Elderly benefit payments were higher, reflecting increases in average benefits, which are indexed to quarterly changes in the consumer price index, and the eligible population.

Transfers to other levels of government were up 3.7 per cent in the first nine months of 1993-94, compared to the same period last year. Slow growth in the applicable tax bases has resulted in higher cash payments under Established Programs Financing (EPF). Fiscal transfers include Equalization, transfers to the territorial governments, grants to municipal governments in lieu of taxes, transfers under the *Public Utilities Income Tax Transfer Act* and payments under the Stabilization and statutory programs. The year-over-year decline in this component is due to lower equalization transfers, given the weakness in income growth in the non-equalization receiving provinces.

Budgetary expenditures 1992-93 and 1993-94

April to December
Year-over-year growth



Other transfer payments declined by 1.7 per cent on a year-over-year basis. This decline reflects lower grants and contributions under a number of programs, including international assistance, agriculture, and regional development. The impact of these declines was dampened by higher payments under the various Indian and Inuit programs and for East Coast fisheries assistance and adjustment.

Payments to non-enterprise Crown corporations were also lower, while defence spending increased, primarily due to the timing of capital payments.

The operating and capital expenditures of other government departments were up by 0.5 per cent on year-over-year basis, in large part due to the costs associated with administering the national election.

Quarterly Fiscal Monitor

Table 3
Budgetary expenditures: April to December

	1992-93	1993-94	Per cent change
	(millions of dollars)		(%)
A. Transfer payments to:			
1. Persons:			
Elderly benefits	14,263	14,852	4.1
Unemployment insurance benefits	13,375	12,450	-6.9
Family allowances	2,182	33	-98.5
Veterans' pensions/allowances	1,084	1,071	-1.2
Other	84	78	-7.1
Total	30,988	28,484	-8.1
2. Other levels of government			
Established Programs Financing	6,693	7,118	6.3
Fiscal transfers	7,311	7,230	-1.1
Canada Assistance Plan	5,741	6,135	6.9
Total	19,745	20,483	3.7
3. Other			
Agricultural subsidies	1,329	1,225	-7.8
Indian and Inuit programs	2,174	2,417	11.2
Regional development	559	450	-19.5
Science and technology	677	668	-1.3
International assistance	1,615	1,501	-7.1
Other	3,167	3,101	-2.1
Total	9,521	9,362	-1.7
4. Total transfers	60,254	58,329	-3.2
B. Payments to Crown corporations			
1. Canadian Broadcasting Corporation	913	866	-5.1
2. Canada Mortgage and Housing Corporation	1,414	1,370	-3.1
3. Other	1,161	1,118	-3.7
4. Total	3,488	3,354	-3.7
C. Operating and capital expenditures			
1. Defence	7,739	7,841	1.3
2. All other departmental expenditures	13,601	13,669	0.5
3. Total	21,340	21,510	0.8
D. Total program expenditures	85,082	83,193	-2.2
E. Public debt charges	29,342	28,555	-2.7
F. Total budgetary expenditures	114,424	111,748	-2.3

Quarterly Fiscal Monitor

Table 4
Non-budgetary transactions: April to December

	1992-93	1993-94
	(millions of dollars)	
Loans, investments, and advances		
Crown corporations	-1,635	553
Other	-17	-104
Total	-1,652	449
Specified purpose accounts		
Canada Pension Plan Account	-463	22
Superannuation accounts	4,307	4,872
Other	-58	-104
Total	3,786	4,790
Other transactions	-4,767	-3,941
Total non-budgetary transactions	-2,633	1,298

Financial requirements

Non-budgetary transactions in the first nine months of 1993-94 resulted in a net source of funds amounting to \$1.3 billion, compared to a

requirement of \$2.6 billion recorded in the corresponding period of 1992-93. This turnaround primarily reflects the repayment of loans by Crown corporations.

Table 5
Foreign exchange and unmatured debt transactions: April to December

	1992-93	1993-94
	(millions of dollars)	
Foreign exchange transactions		
Net international reserves	11,133	2,500
Unmatured debt transactions payable in foreign currencies	-827	3,227
Total	10,306	5,727
Unmatured debt transactions		
Marketable bonds	13,208	19,054
Canada Savings Bonds	284	-1,746
Treasury bills	7,150	3,850
Other	-2	4,288
Sub-total	20,640	25,446
<i>Less:</i>		
Government's holding of unmatured debt	-516	-367
Unmatured debt transactions payable in foreign currency	827	-3,227
Sub-total	311	-3,594
Total unmatured debt transactions payable in Canadian dollars	20,951	21,852

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Table 6
Cash, unmatured debt and debt balances: at December 31

	1992	1993
	(millions of dollars)	
Cash balances at end of period		
In Canadian dollars	1,601	2,923
In foreign currencies	276	64
Total cash balance	1,877	2,987
Unmatured debt balance		
Payable in Canadian dollars –		
Marketable bonds	172,089	198,327
Canada Savings Bonds	35,881	32,623
Treasury bills	159,450	165,900
Other	3,507	3,758
Sub-total	370,927	400,608
Less:		
Government's holdings of unmatured debt	1,564	1,402
Total	369,363	399,206
Payable in foreign currencies –		
Marketable bonds	2,617	2,049
Notes and loans	0	0
Canada bills	0	6,590
Sub-total	2,617	8,639
Less:		
Government's holdings of unmatured debt	0	0
Total unmatured debt	371,980	407,845

As a result, financial requirements, excluding foreign exchange transactions, amounted to \$27.5 billion in the first nine months of 1993-94, down \$2.7 billion from the level recorded in the first nine months of 1992-93.

The net source of funds from foreign exchange transactions was down \$4.6 billion in the first nine months of 1993-94. As a result, total financial requirements, including foreign

exchange transactions, were \$21.7 billion for the first nine months of 1993-94, up \$1.9 billion from the same period last year.

Unmatured debt transactions to the end of December 1993 amounted to \$21.9 billion, up \$0.9 billion from that borrowed last year. Cash balances, as of December 31, 1993, stood at \$3.0 billion, up \$1.1 billion from December 31, 1992.

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Table 7
Debt Servicing and Reduction Account

	1991-92	1992-93	April to December 1993-94
	(millions of dollars)		
A. Gross GST collected	29,564	30,516	23,360
Less:			
Input tax credit	10,068	10,702	8,557
Rebates	1,262	1,436	927
GST paid by federal departments	804	1,006	705
Quarterly low-income tax credit	2,262	2,503	2,015
Net GST	15,168	14,868	11,156
B. GST penalties and interest received	19	71	
C. Gains from wind-up of interest in Crown corporations/disposal of shares in Crown corporations	2	110	
D. Gifts to the Crown	0.4	0.1	0.1
E. Proceeds to the Crown	15,190	15,050	11,156

Figures for 1991-92 and 1992-93 are from the Public Accounts of Canada – 1992-93.

Figures may not add due to rounding.

The Debt Servicing and Reduction Account

In June 1992, legislation to establish the Debt Servicing and Reduction Account received Royal Assent. As a result, effective April 1, 1991, all Goods and Services Tax revenue net of the applicable input tax credits, rebates, and the

low-income credit, along with the net proceeds from the sale of Crown corporations and gifts to the Crown identified for debt reduction must go directly to the Debt Servicing and Reduction Account by law. The funds in this Account can only be used to pay the cost of servicing the public debt and ultimately to reduce the debt. The Account is audited on an annual basis by the Auditor General of Canada.

The information in this Monitor is based on preliminary financial results for the quarter ended December 31, 1993. For further information contact: P. DeVries at 996-7397. Cet imprimé est également offert en français.



The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for April 1993 to March 1994

- The budget deficit estimate for 1993-94 of between \$44 to \$46 billion was based on very prudent assumptions concerning revenue growth and spending in the last quarter of the fiscal year.
- The assumption was that revenues in the last quarter of 1993-94 would be relatively unchanged from that witnessed in the third quarter of the fiscal year.
- Economic data released since the February 1994 budget suggest that, in the final quarter of fiscal year 1993-94, the major revenue bases grew at a faster pace while the number of unemployment beneficiaries fell more than assumed in the budget. As a result, revenues are somewhat higher and public debt charges and certain components of program spending lower than forecast in the budget.
- The deficit in March 1994 was \$0.3 billion lower than in March 1993. As a result, for the period April 1993 to March 1994, the deficit was \$35.4 billion, down \$1.3 billion from the same period in 1992-93.
- These are not the final results for fiscal year 1993-94. Still to come are the end-of-year accounting adjustments, including the special factors identified in the February 1994 budget.
- Based on the results to date and expected supplementary period adjustments, the deficit for 1993-94 is now expected to be at the bottom end of the budget range of \$44 to \$46 billion and could come in lower. Final audited deficit results will be available in late summer.
- To the degree that the stronger revenue growth and lower program spending carries forward into the 1994-95 fiscal year, there will be a greater assurance that the 1994-95 deficit target will be met. This, coupled with the fact that the deficit target for 1994-95 was based on prudent planning assumptions including increased reserves for contingencies, should provide sufficient flexibility to meet the 1994-95 deficit target, despite the recent rise in interest rates.

The Fiscal Monitor

Table 1
Summary statement of transactions

	March		April to March	
	1993	1994	1992-93	1993-94
(millions of dollars)				
Budgetary transactions				
Revenues	13,574	12,356	118,657	114,194
Program spending	-12,566	-11,233	-116,140	-112,253
Operating surplus	1,008	1,123	2,517	1,941
Public debt charges	-3,183	-3,018	-39,219	-37,354
Deficit	-2,175	-1,895	-36,702	-35,413
Non-budgetary transactions	2,046	1,236	2,650	5,663
Financial requirements (excluding foreign exchange transactions)	-129	-659	-34,052	-29,750
Foreign exchange transactions: net source (+) / requirement (-)	-4,372	826	7,702	3,115
Total financial requirements	-4,501	167	-26,350	-26,635
Unmatured debt transactions	6,312	353	28,807	25,957

Deficit down in March 1994

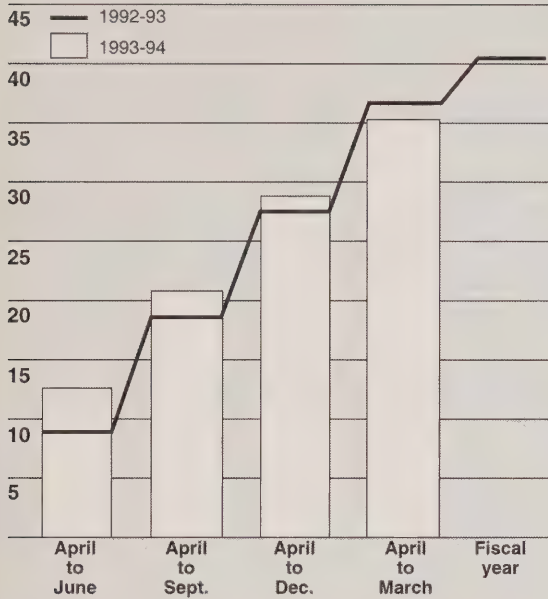
The deficit in March 1994 was estimated at \$1.9 billion, \$0.3 billion lower than in March 1993.

- The improvement reflects large transfers to provinces (\$1.3 billion) in March 1993 for underpayments in previous fiscal years, which were not repeated in March 1994. Excluding the impact of these payments, the deficit would have been up \$1.0 billion in March 1994.
 - Budgetary revenues were down \$1.2 billion, on a year-over-year basis, or 9.0 per cent. This overall decline reflects in a combination of:
 - lower non-tax revenues, due to lower Exchange Fund Account earnings and Bank of Canada profits;
 - lower sales and excise tax revenues, due to changes in remittance procedures, which depressed collections in February 1993 but overstated them in March 1993. Traditional remittance procedures were followed in 1994, resulting in higher year-over-year collections in February 1994, with corresponding lower collections in March 1994; and,
 - higher corporate income tax collections which were up \$0.5 billion, or 27.6 per cent from March 1993. March is the tax settlement period for most large corporations and the increase in the current month reflects the increase in corporate profits during 1993.
 - faster processing of personal income tax returns, which resulted in an additional \$1.8 billion of personal income tax refunds being processed in March 1994;

The federal deficit 1992-93 and 1993-94

Year to date

billions of dollars



- Program spending (total spending less public debt charges) was down \$1.3 billion (10.6 per cent) in March 1994 over March 1993, largely because of the prior-year payments to provinces under Established Programs Financing.
- Public debt charges were \$0.2 billion (5.2 per cent) lower in March 1994 than in March 1993, primarily reflecting the impact of lower interest rates on Treasury bills.

Deficit declines in April 1993 to March 1994 period

Over the period April 1993 to March 1994, the deficit was estimated at \$35.4 billion. These results are not the final deficit results for fiscal year 1993-94. Still to be determined are the standard accounting adjustments recorded in the "supplementary period". Consistent with government accounting principles, these "supplementary period" adjustments reflect the recording of the costs of goods and services

provided to the government prior to the end of March, as well as liabilities incurred during 1993-94, for which no payment has yet been made. Adjustments are also made to budgetary revenues, primarily to reflect cash-in-transit at year end.

Outcome for 1993-94 expected to be at bottom end or lower than budget forecast range

The year-to-date deficit results are \$1.3 billion lower than in the same period in 1992-93. The February 1994 budget estimated the deficit for the year as a whole at between \$44 and \$46 billion. A mid-point of \$45 billion, plus restructuring costs of \$0.7 billion, was used for presentational purposes.

Over the last four fiscal years, the "supplementary period" adjustments have averaged \$4.1 billion. However, as the February 1994 budget indicated, a number of special developments during the course of 1993-94 will result in a higher "supplementary period" adjustment this year. These include:

- higher liabilities for Stabilization claims by provinces experiencing year-to-year declines in revenues in previous years (\$1.2 billion);
- restructuring costs associated with defence downsizing and potential costs for the cancellation of the helicopter contract (\$0.7 billion); and,
- liabilities concerning the taxation of resource allowances (\$0.5 billion).

Although the magnitude of the "supplementary period" adjustments is still uncertain, it is expected that the deficit outcome will be at the lower end of the range estimated in the February 1994 budget, and possibly below it. Final results will be published in the **Annual Financial Report**, scheduled for release in late summer.

The Fiscal Monitor

The February 1994 budget deficit forecasts were based on prudent planning assumptions. This was done in response to pre-budget advice by private sector economists and others.

Since the budget, economic indicators have been encouraging. Strong employment gains were recorded in February 1994 and March 1994, with most of the increase in full-time jobs, which should boost incomes. As well, the number of unemployment insurance beneficiaries was down considerably in the first quarter of 1994 from year earlier levels. Retail sales were up in both January and February, while corporate profits, in the first quarter of 1994, reached levels not seen since before the 1990-1991 recession.

The improvement in the economic indicators is reflected in the fiscal results for both February 1994 and March 1994. There was:

- stronger growth in the major revenue components in the final quarter of 1993-94;
- lower unemployment insurance benefit payments. There also were:
- lower public debt charges.

It is still too early to assess the impact of these results on the fiscal outlook for 1994-95. However, the preliminary results for 1993-94 are encouraging and provide increased assurance that the deficit target for 1994-95 will be met, despite the recent increases in interest rates.

Financial requirements lower in 1993-94

Financial requirements are unaffected by the "supplementary period" adjustments. Preliminary financial requirements, excluding foreign exchange transactions, amounted to \$29.7 billion for 1993-94, \$4.3 billion lower than the 1992-93 requirements. The 1993-94 requirements are \$4.0 billion below the February

1994 budget estimate. Although there is not a one-to-one relationship between financial requirements and the deficit, these results also suggest that the deficit outcome for 1993-94 could be better than estimated in the 1994 budget.

Budgetary revenues down

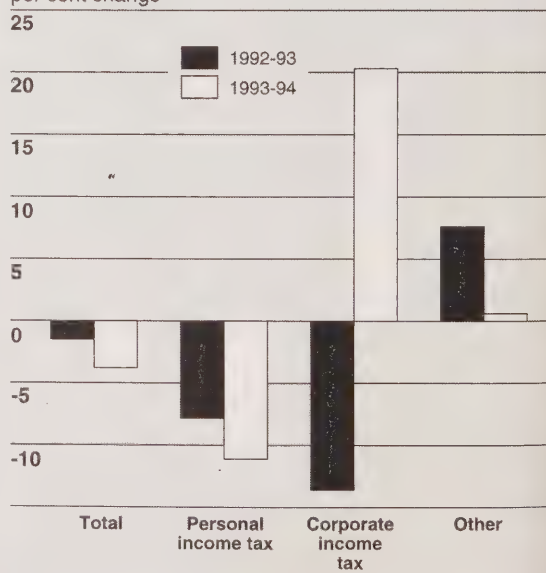
On a year-over-year basis, budgetary revenues over the April 1993 to March 1994 period declined by \$4.5 billion (3.8 per cent). Most of this decline was attributable to lower personal income tax collections – down \$6.4 billion – which primarily reflect one-time structural factors and developments related to previous fiscal years. These include:

- the introduction of the Child Tax Benefit in January 1993, which is netted from personal income tax collections (-\$3.9 billion);

Budgetary revenues 1992-93 and 1993-94

April to March
Year-over-year growth

per cent change



The Fiscal Monitor

- higher refunds and lower taxes paid on filing pertaining to taxation year 1992, which dampened collections in early 1993-94 (-\$2.8 billion);
- faster processing of personal income tax refunds in March 1994 (-\$1.8 billion). This is above the February 1994 budget estimate of \$1.2 billion; and,
- extraordinary Provincial Tax Collection Account recoveries in February 1993, due to overpayments with respect to taxation year 1991 (-\$1.0 billion).
- Excluding these one-time factors, personal income tax collections increased on a year-over-year basis.

Non-tax revenues were also lower, down \$1.1 billion, due largely to reduced Exchange

Fund Account earnings and Bank of Canada profits.

Corporate income tax collections were up \$1.6 billion, or 20.3 per cent. This increase reflects both abnormally high refunds in 1992-93 and increased corporate profits in 1993.

Total excise taxes and duties were up 2.7 per cent, with significant differences among the various components.

- Collections under the Goods and Services Tax (GST) were up 7.5 per cent, on a year-over-year basis.
- In contrast, customs import duties were down 6.2 per cent, in part reflecting reductions in tariffs under the Canada-United States Free Trade Agreement.

Table 2
Budgetary revenues

	March		April to March		Per cent change
	1993	1994	1992-93	1993-94	
	(millions of dollars)				%
Income taxes					
Personal income tax	3,513	2,605	57,795	51,400	-11.1
Corporate income tax	1,649	2,104	7,837	9,425	20.3
Unemployment insurance contributions	1,508	1,562	17,721	18,322	3.4
Non-resident tax	79	96	1,185	1,260	6.3
Total income tax	6,749	6,367	84,538	80,407	-4.9
Excise taxes and duties					
Goods and Services Tax	1,777	1,626	14,033	15,083	7.5
Customs import duties	469	298	3,702	3,472	-6.2
Sales and excise taxes	543	566	7,245	7,103	-2.6
Total excise taxes and duties	2,789	2,490	24,980	25,658	2.7
Other					
Other tax revenue	33	57	231	291	26.0
Non-tax revenue	4,003	3,442	8,908	7,838	-12.0
Total other revenues	4,036	3,499	9,139	8,129	-11.1
Total budgetary revenues	13,574	12,356	118,657	114,194	-3.8

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- Sales and excise taxes were down 2.6 per cent, primarily due to reduced domestic tax-paid sales of tobacco products. Given the collection lags, it is still too early to assess the impact on excise tax collections of the reductions in the excise tax on tobacco products announced on February 8, 1994.

Budgetary expenditures lower

In the April 1993 to March 1994 period, total budgetary expenditures declined by 3.7 per cent on a year-over-year basis. Public debt charges, the largest single component of budgetary expenditures, were 4.8 per cent lower.

- The decline in public debt charges reflects the impact of lower interest rates and net gains resulting from the reopening of certain marketable bonds.

Program spending declined by \$3.9 billion (3.3 per cent) in the April 1993 to March 1994 period, compared to the same period in 1992-93.

This decline reflects a number of factors:

- the replacement of the monthly family allowance benefit, which was part of program spending, with the child tax benefit, which is netted from personal income tax collections (-\$2.2 billion reduction in program spending);
- lower transfer payments to provinces under Established Programs Financing. This is due to the impact of large payments in March 1993, in part relating to census population adjustments with respect to previous fiscal years, and the ongoing impact of restraint measures announced in previous budgets (-\$1.4 billion); and,
- lower unemployment insurance benefits, reflecting a decline in the number of persons eligible for unemployment insurance benefits and the impact of the December 1992

Economic and Fiscal Statement measures. These reduced the benefit rate for new beneficiaries from 60 per cent to 57 per cent of maximum insurable earnings, effective April 1993, and excluded those who quit their jobs without just cause (\$1.5 billion).

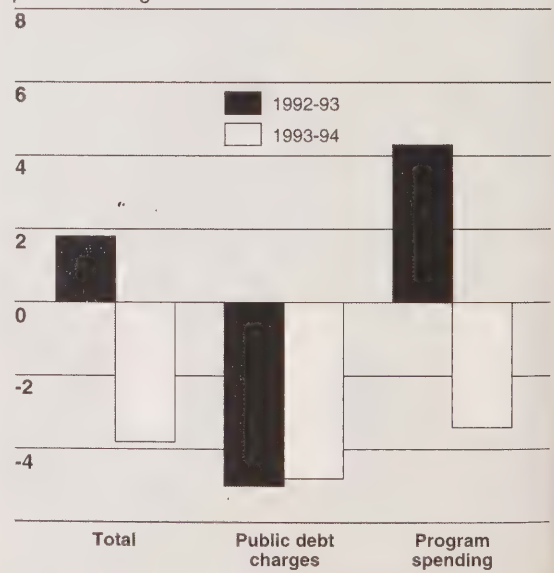
Among the other components of program spending:

- elderly benefit payments were up \$0.8 billion, primarily reflecting increases in the eligible population;
- Canada Assistance Plan transfers, were up \$0.4 billion;
- aboriginal funding, was up \$0.3 billion; while,
- spending on defence, payments to Crown corporations, and all other departmental expenditures were generally unchanged.

Budgetary expenditures 1992-93 and 1993-94

April to March
Year-over-year growth

per cent change



The Fiscal Monitor

Table 3
Budgetary expenditures

	March		April to March		
	1993	1994	1992-93	1993-94	Per cent change
	(millions of dollars)				%
Transfer payments to:					
Persons:					
Elderly benefits	1,615	1,683	19,101	19,895	4.2
Unemployment insurance benefits	2,005	1,779	19,002	17,469	-8.1
Family allowances	3	3	2,195	43	-98.0
Veterans' pensions/allowances	120	124	1,450	1,433	-1.2
Total	3,743	3,589	41,747	38,840	-7.0
Other levels of government					
Established Programs Financing	2,673	972	11,194	9,810	-14.1
Fiscal transfers	1,147	1,164	9,900	9,671	-2.3
Canada Assistance Plan	299	358	6,690	7,123	6.5
Total	4,119	2,484	27,784	26,604	-5.0
Other					
Agricultural subsidies	189	84	1,844	1,368	-25.8
Indian and Inuit Programs	146	157	2,587	2,868	10.9
Regional development	102	100	798	692	-13.2
Science and Technology	105	116	934	930	-0.4
International assistance	370	418	2,393	2,277	-4.9
Other	241	717	4,458	5,206	17.0
Total	1,153	1,592	13,014	13,342	2.5
Total transfers	9,015	7,665	82,545	78,585	-4.8
Payments to Crown corporations					
Canadian Broadcasting Corporation	27	65	1,110	1,099	-1.0
Canada Mortgage and Housing Corporation	173	196	1,879	1,918	2.1
Other	164	245	1,594	1,612	1.1
Total	364	506	4,583	4,629	1.0
Operating and capital expenditures					
Defence	1,093	1,079	10,458	10,446	-0.1
All other departmental expenditures	2,094	1,983	18,554	18,611	0.3
Total	3,187	3,062	29,013	29,057	0.2
Total program expenditures	12,566	11,233	116,140	112,253	-3.3
Public debt charges	3,183	3,018	39,219	37,354	-4.8
Total budgetary expenditures	15,749	14,251	155,359	149,607	-3.7

The Fiscal Monitor

Financial requirements lower

Financial requirements measure the amount by which cash going out from the Government exceeds cash coming in. Financial requirements are lower than the deficit, as they also include the net source of funds from non-budgetary transactions. The latter includes transactions in loans, investments and advances, government employees' pension accounts, other specified accounts, and other financial assets and liabilities.

Non-budgetary transactions in the April 1993 to March 1994 period resulted in a net source of funds amounting to \$5.7 billion, compared to \$2.7 billion recorded in the corresponding period of 1992-93. This turnaround primarily reflects the repayment of loans by Crown corporations and the lags associated with the encashment of personal income refund cheques.

As a result, financial requirements, excluding foreign exchange transactions, amounted to \$29.7 billion in 1993-94, down \$4.3 billion from that recorded in 1992-93. Financial requirements are largely unaffected by the "supplementary period" adjustments. As such these results will correspond closely to the final results for the year as a whole.

The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. It fulfils this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure on the currency.

During 1993-94, foreign exchange transactions provided a net source of funds amounting to \$3.1 billion, down \$4.6 billion from 1992-93.

Table 4
The deficit and financial requirements

	March		April to March	
	1993	1994	1992-93	1993-94
	(millions of dollars)			
Deficit	-2,175	-1,895	-36,702	-35,413
Loans, investments and advances				
Crown corporations	466	-81	-842	449
Other	157	-42	147	-146
Total	623	-123	-696	303
Specified purpose accounts				
Canada Pension Plan Account	345	403	-373	-72
Superannuation accounts	1,536	1,427	6,476	6,799
Other	599	-788	-341	-976
Total	2,480	1,042	5,762	5,751
Other transactions	-1,057	317	-2,416	-391
Total non-budgetary transactions	2,046	1,136	2,650	5,663
Financial requirements (excluding foreign exchange transactions)	-129	-659	-34,052	-29,750

The decline reflects the larger depreciation in the Canadian dollar in 1992-93 than in 1993-94.

As a result, total financial requirements, including foreign exchange transactions, were \$26.6 billion in 1993-94, virtually unchanged from the net requirement in 1992-93.

To finance these requirements, the Government borrows from the private sector and/or draws down its cash reserves. Total

borrowings from the private sector (unmatured debt transactions) amounted to \$26.0 billion in 1993-94, down \$2.9 billion from that borrowed on financial markets last year. Cash balances, as of March 31, 1994, stood at \$2.2 billion.

Table 5
Financial requirements, foreign exchange and unmaturred debt transactions

	March		April to March	
	1993	1994	1992-93	1993-94
	(millions of dollars)			
Financial requirements (excluding foreign exchange transactions)	-129	-659	-34,052	-29,750
Foreign exchange transactions				
Net international reserves	-4,744	112	5,978	978
Unmatured debt transactions payable in foreign currencies	372	714	1,724	2,138
Total	-4,372	826	7,702	3,115
Total financial requirements	-4,501	167	-26,350	-26,635
Unmatured debt transactions				
Marketable bonds	2,499	1,600	19,556	24,176
Canada Savings Bonds	-466	-437	-1,290	-3,047
Treasury bills	4,100	-1,001	9,750	3,949
Other	371	713	2,549	2,955
Sub-total	6,504	875	30,565	28,017
<i>Less:</i>				
Government's holding of unmaturred debt	180	192	-34	78
Unmatured debt transactions payable in foreign currency	-372	-714	-1,724	-2,138
Sub-total	-192	-522	-1,758	-2,060
Total unmaturred debt transactions payable in Canadian dollars	6,312	353	28,807	25,957
Change in cash balance	1,811	520	2,457	-678

The Fiscal Monitor

Table 6

Cash, unmatured debt and debt balances: at March 31

	1993	1994
	(millions of dollars)	
Cash balances at end of period		
In Canadian dollars	2,774	2,031
In foreign currencies	458	173
Total cash balance	3,232	2,203
Unmatured debt balance		
Payable in Canadian dollars –		
Marketable bonds	178,439	203,450
Canada Savings Bonds	34,308	31,322
Treasury bills	162,050	165,999
Other	3,506	3,497
Sub-total	378,303	404,268
Less:		
Government's holdings of unmatured debt	1,054	980
Total	377,249	403,288
Payable in foreign currencies –		
Marketable bonds	2,617	2,049
Notes and loans	0	0
Canada bills	2,552	5,499
Sub-total	5,169	7,548
Less:		
Government's holdings of unmatured debt	0	0
Total unmatured debt	382,418	410,836

The Debt Servicing and Reduction Account

In June 1992, legislation to establish the Debt Servicing and Reduction Account received Royal Assent. As a result, effective April 1, 1991, all Goods and Services Tax revenue net of the applicable input tax credits, rebates, and the low-income credit, along with the net proceeds

from the sale of Crown corporations and gifts to the Crown identified for debt reduction must, by law, go directly to the Debt Servicing and Reduction Account. The funds in this Account can only be used to pay the cost of servicing the public debt and ultimately to reduce the debt. The Account is audited on an annual basis by the Auditor General of Canada.

Table 7
Debt Servicing and Reduction Account

	1991-92	1992-93	April to March 1993-94
	(millions of dollars)		
Gross GST collected	29,564	30,516	31,648
<i>Less:</i>			
Input tax credit	10,068	10,702	11,499
Rebates	1,262	1,436	1,450
GST paid by federal departments	804	1,006	924
Quarterly low-income tax credit	2,262	2,503	2,685
Net GST	15,168	14,868	15,083
GST penalties and interest received	19	71	
Gains from wind-up of interest in Crown corporations/disposal of shares in Crown corporations	2	110	
Gifts to the Crown	0.4	0.1	0.1
Proceeds to the Crown	15,190	15,050	15,083

Numbers for 1991-92 and 1992-93 are from the Public Accounts of Canada – 1992-93.
Numbers may not add due to rounding.

The information in this Monitor is based on preliminary financial results for the quarter ended March 31, 1994.
For further information contact: P. DeVries at 996-7397. Cet imprimé est également offert en français.

May 1994



The Fiscal Monitor

A Publication of the Department of Finance

Financial Results for April 1994

The deficit in April 1994 was estimated at \$5.2 billion, down \$0.9 billion from April 1993.

- The year-over-year improvement in the deficit was primarily attributable to higher budgetary revenues, which were up 15.8 per cent on a year-over-year basis. Both program spending and public debt charges in April 1994 were virtually unchanged from year earlier levels.
- Most of the increase in budgetary revenues was due to higher personal income tax collections, which were up 31.2 per cent from April 1993. The higher collections reflected strong growth in the applicable tax base resulting from the employment gains registered since the beginning of 1994. In addition, personal income tax refunds were lower in April 1994 than in April 1993. This was due to the faster processing of tax returns by Revenue Canada in March 1994, as noted in the February 1994 budget.
- Program spending declined 0.3 per cent, on a year-over-year basis, as lower unemployment insurance benefit payments and defence spending offset increases elsewhere. Public debt charges were up by 0.6 per cent.

The stronger revenue growth, witnessed in the final quarter of 1993-94, is being carried forward into 1994-95. This, coupled with the fact that substantial reserves for contingencies were established for 1994-95 in the February 1994 budget, should provide sufficient flexibility to meet the 1994-95 deficit target, despite the recent rise in interest rates.

Table 1
Government of Canada
Summary statement of financial transactions¹

	April	
	1993	1994
	(in millions of dollars)	
Budgetary transactions		
Revenues	5,500	6,369
Program spending	-8,285	-8,257
Operating balance	-2,785	-1,888
Public debt charges	-3,274	-3,295
Deficit	-6,059	-5,183
Non-budgetary transactions	2	-1,517
Financial requirements (excluding foreign exchange transactions)	-6,057	-6,700
Foreign exchange transactions	-856	2,144
Financial requirements	-6,913	-4,556
Unmatured debt transactions	5,534	3,805

Note: Data compiled by the Receiver General for Canada.

¹ (+) indicates a source of funds, while (-) indicates a requirement for funds.



The Fiscal Monitor

Table 2

Government of Canada

Detailed statement of budgetary transactions

	April	
	1993	1994
	(in millions of dollars)	
Revenues		
Personal income tax	2,725	3,575
Corporate income tax	266	450
Unemployment insurance contributions	1,512	1,581
Non-resident tax	109	115
Total income tax	4,612	5,721
Excise taxes and duties		
Goods and Services Tax	-31	35
Customs import duties	301	138
Excise taxes and duties	198	156
Total excise taxes and duties	468	329
Other tax revenue	37	43
Total tax revenue	5,117	6,093
Non-tax revenue	383	276
Total budgetary revenues	5,500	6,369
Expenditures		
Transfer payments to:		
Persons –		
Elderly benefits	1,578	1,631
Unemployment insurance benefits	1,593	1,396
Other	125	127
Total	3,296	3,151
Other levels of government –		
Established Programs Financing	780	752
Fiscal transfers	769	858
Canada Assistance Plan	604	603
Total	2,152	2,214
Other		
Agriculture	8	81
Indian and Inuits	575	634
Regional development	8	1
Science and technology	60	70
International assistance	90	83
Other	256	226
Total	1,017	1,095
Total transfers	6,465	6,460
Payments to Crown corporations	436	484
Operating and capital expenditures		
Defence	510	421
All other departmental expenditures	874	892
Total	1,384	1,313
Total program spending	8,285	8,257
Public debt charges	3,274	3,295
Total budgetary expenditures	11,559	11,552

Table 3
Government of Canada
Non-budgetary transactions

	April	
	1993	1994
	(in millions of dollars)	
Loans, investments, and advances		
Crown corporations	371	-181
Other	-6	-76
Total	365	-257
Specified purpose accounts		
Canada Pension Plan Account	548	514
Superannuation accounts	-149	-150
Other	-969	-955
Total	-570	-591
Other transactions	207	-669
Total non-budgetary transactions	2	-1,517

Table 4
Government of Canada
Foreign exchange and unmatured debt transactions

	April	
	1993	1994
	(in millions of dollars)	
Foreign exchange transactions		
Net international reserves	-1,051	1,665
Unmatured debt transactions payable in foreign currencies	195	479
Total	-856	2,144
Unmatured debt transactions		
Marketable bonds	1,974	2,875
Canada Savings Bonds	-445	-798
Treasury bills	3,850	1,600
Other	194	478
Sub-total	5,573	4,155
Less:		
Government's holding of unmatured debt	156	129
Unmatured debt transactions payable in foreign currencies	-195	-479
Sub-total	-39	-350
Total unmatured debt transactions payable in Canadian dollars	5,534	3,805

The Fiscal Monitor

Table 5
Government of Canada
Cash, unmatured debt and debt balances

	April	
	1993	1994
	(in millions of dollars)	
Cash balances at end of period		
In Canadian dollars	1,470	1,383
In foreign currencies	44	5
Total cash balance	1,514	1,388
Unmatured debt balance		
Payable in Canadian dollars –		
Marketable bonds	178,439	206,324
Canada Savings Bonds	34,369	30,533
Treasury bills	162,050	167,600
Other	3,505	3,497
Sub-total	378,363	407,954
Less:		
Government's holdings of unmatured debt	1,034	847
Total	377,329	407,107
Payable in foreign currencies –		
Marketable bonds	2,858	5,019
Notes and loans	0	0
Canada bills	2,552	6,128
Sub-total	5,410	11,147
Less:		
Government's holdings of unmatured debt	0	0
Total unmatured debt	382,739	418,254

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Cet imprimé est également offert en français.

June 1994



The Fiscal Monitor

A Publication of the Department of Finance

Financial Results for May 1994

The deficit in May 1994 was estimated at \$1.6 billion, down \$0.7 billion from May 1993.

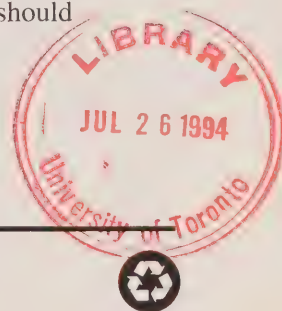
- The year-over-year improvement in the deficit was attributable to higher budgetary revenues, which were up by \$1.2 billion or 12.3 per cent on a year-over-year basis. Both program spending and public debt charges in May 1994 were up slightly from year earlier levels.
- Most of the increase in budgetary revenues was due to higher corporate income tax collections, which were up \$0.5 billion or 86.3 per cent from May 1993. The higher collections reflect strong growth in corporate profits and lower refunds. Goods and Services Tax (GST) collections were up \$0.3 billion, or 21.3 per cent, reflecting increases in consumer spending. Personal income tax collections increased by \$0.2 billion, or 4.0 per cent.
- Program spending increased by \$0.1 billion, or 1.4 per cent, as declines in unemployment insurance benefit payments, defence, and other transfers were offset by increases in the other components. The increases in program spending were primarily due to the timing of payments. Public debt charges were up by \$0.3 billion, or 9.6 per cent, reflecting the impact of the recent rise in interest rates.

Financial Results for April and May 1994

Over the first two months of the fiscal year (April and May), the deficit was \$1.6 billion lower than in the same period in 1993-94. The improvement in the deficit was due to higher revenues, up by \$2.0 billion.

- Higher personal income tax collections account for about half the increase in budgetary revenues. This increase in collections reflects strong growth in the applicable tax base resulting from the employment gains registered since the beginning of 1994. In addition, personal income tax refunds were lower than last year due to the faster processing of tax returns by Revenue Canada in March 1994, as noted in the February 1994 budget.
- Corporate income tax and GST collections also registered notable gains in the first two months of 1994-95, compared to year earlier levels, reflecting increases in corporate profits and consumer spending, respectively.
- Program spending increased by 0.6 per cent, again due to the timing of certain payments. Public debt charges advanced by 5.1 per cent, primarily due to the increases in interest rates on the public debt.

Despite the recent rise in interest rates, the current strength in revenue growth, coupled with the fact that increased reserves for contingencies were established for 1994-95 in the February 1994 budget, should provide sufficient flexibility to meet the 1994-95 deficit target.



The Fiscal Monitor

Table 1

Government of Canada Summary statement of financial transactions¹

	May		April to May	
	1993	1994	1993-94	1994-95
(in millions of dollars)				
Budgetary transactions				
Revenues	9,389	10,546	14,890	16,915
Program spending	-8,481	-8,602	-16,766	-16,859
Operating balance	908	1,944	-1,876	56
Public debt charges	-3,246	-3,559	-6,520	-6,854
Deficit	-2,338	-1,615	-8,396	-6,798
Non-budgetary transactions	686	447	688	-1,070
Financial requirements (excluding foreign exchange transactions)	-1,652	-1,168	-7,708	-7,868
Foreign exchange transactions	920	792	64	2,935
Financial requirements	-732	-376	-7,644	-4,933
Unmatured debt transactions	1,523	705	7,058	4,510

Note: Data compiled by the Receiver General for Canada.

¹ (+) indicates a source of funds, while (-) indicates a requirement for funds.

Table 2

Government of Canada Detailed statement of budgetary transactions – revenues

	May		April to May	
	1993	1994	1993-94	1994-95
(in millions of dollars)				
Personal income tax	4,785	4,978	7,510	8,552
Corporate income tax	525	978	791	1,428
Unemployment insurance contributions	1,533	1,625	3,045	3,206
Non-resident tax	92	100	201	215
Total income tax	6,935	7,681	11,547	13,401
Excise taxes and duties				
Goods and Services Tax	1,297	1,573	1,266	1,607
Customs import duties	240	249	438	405
Sales and excise taxes	654	752	955	890
Total excise taxes/duties	2,191	2,574	2,659	2,902
Other tax revenue	24	29	61	72
Total tax revenue	9,150	10,284	14,267	16,375
Non-tax revenue	239	262	623	540
Total budgetary revenues	9,389	10,546	14,890	16,915

Table 3
Government of Canada
Detailed statement of budgetary transactions – expenditures

	May		April to May	
	1993	1994	1993-94	1994-95
(in millions of dollars)				
Transfer payments to:				
Persons –				
Elderly benefits	1,642	1,703	3,219	3,337
Unemployment insurance benefits	1,561	1,369	3,154	2,759
Other	131	129	257	256
Total	3,334	3,201	6,630	6,352
Other levels of government:				
Established Programs Financing	780	752	1,559	1,505
Fiscal transfers	822	852	1,591	1,711
Canada Assistance Plan	507	715	1,111	1,318
Total	2,108	2,319	4,261	4,533
Other				
Agriculture	22	14	50	96
Indians and Inuit	273	264	848	897
Regional development	15	5	19	6
Science and technology	29	14	89	84
International assistance	107	125	199	208
Other	356	375	614	600
Total	802	797	1,819	1,891
Total transfers	6,244	6,317	12,709	12,776
Payments to Crown corporations	274	342	710	825
Operating and capital expenditures				
Defence	713	675	1,223	1,096
All other departmental expenditures	1,250	1,268	2,123	2,162
Total	1,963	1,943	3,347	3,257
Total program spending	8,481	8,602	16,766	16,859
Public debt charges	3,246	3,559	6,520	6,854
Total budgetary expenditures	11,727	12,161	23,286	23,713

Table 4
Government of Canada
Non-budgetary transactions

	May		April to May	
	1993	1994	1993-94	1994-95
(in millions of dollars)				
Loans, investments, and advances				
Crown corporations	5	-40	377	-221
Other	-49	-55	-57	-131
Total	-44	-95	320	-352
Specified purpose accounts				
Canada Pension Plan Account	607	670	1,154	1,184
Superannuation accounts	-137	-171	-286	-320
Other	-44	136	-1,011	-820
Total	426	635	-143	44
Other transactions	304	-93	511	-762
Total non-budgetary transactions	686	447	688	-1,070

The Fiscal Monitor

Table 5

Government of Canada Foreign exchange and unmatured debt transactions

	May		April to May	
	1993	1994	1993-94	1994-95
(in millions of dollars)				
Foreign exchange transactions				
Net international reserves	1,015	326	-36	1,990
Unmatured debt transactions payable in foreign currencies	-95	466	100	945
Total	920	792	64	2,935
Unmatured debt transactions				
Marketable bonds	1,600	2,000	3,575	4,875
Canada Savings Bonds	-191	-557	-636	-1,356
Treasury bills	-50	-900	3,800	700
Other	-96	465	98	943
Sub-total	1,263	1,008	6,837	5,162
Less:				
Government's holding of unmatured debt	165	163	321	293
Unmatured debt transactions payable in foreign currencies	95	-466	-100	-945
Sub-total	260	-303	221	-652
Total unmatured debt transactions payable in Canadian dollars	1,523	705	7,058	4,510

Table 6

Government of Canada Cash, unmatured debt and debt balances

	at May 31	
	1993	1994
(in millions of dollars)		
Cash balances at end of period		
In Canadian dollars	2,253	1,691
In foreign currencies	41	24
Total cash balance	2,294	1,715
Unmatured debt balance		
Payable in Canadian dollars –		
Marketable bonds	182,040	208,320
Canada Savings Bonds	33,733	29,976
Treasury bills	165,850	166,700
Other	3,503	3,496
Sub-total	385,126	408,492
Less:		
Government's holdings of unmatured debt	714	683
Total	384,412	407,809
Payable in foreign currencies –		
Marketable bonds	2,858	5,019
Notes and loans	0	0
Canada bills	2,652	6,594
Sub-total	5,510	11,613
Less:		
Government's holdings of unmatured debt	0	0
Total unmatured debt	389,922	419,422



The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for June 1994

Deficit down \$1.1 billion in June 1994

The deficit in June 1994 was estimated at \$2.9 billion, down \$1.1 billion from June 1993.

- Most of the year-over-year improvement in the deficit was attributable to higher budgetary revenues, which were up \$0.8 billion or 8.4 per cent on a year-over-year basis. Program spending was down by over \$0.4 billion, while public debt charges were up slightly from year earlier levels.

Deficit for April to June 1994 down by \$2.7 billion

Over the first three months of the fiscal year, the deficit was \$2.7 billion lower than in the same period in 1993-94.

- Budgetary revenues were up \$2.8 billion, on a year-over-year basis. This increase in collections reflected strong growth in the applicable tax bases witnessed since the beginning of 1994. In addition, the faster processing of personal income tax returns by Revenue Canada in March 1994 resulted in lower personal income tax refunds in the first quarter of 1994-95.
- Program spending declined by \$0.4 billion, as lower expenditures on unemployment insurance benefits, defence, and operating and capital spending offset increases in other components.
- Public debt charges were up by \$0.4 billion, primarily due to the increases in interest rates on the public debt.

The improvement in the deficit results to date, coupled with the impact of the expenditure restraint measures and the fact that increased reserves for contingencies were established for 1994-95 in the February 1994 budget, should ensure that the 1994-95 deficit target is met, despite the recent rise in interest rates.



The Fiscal Monitor

Table 1

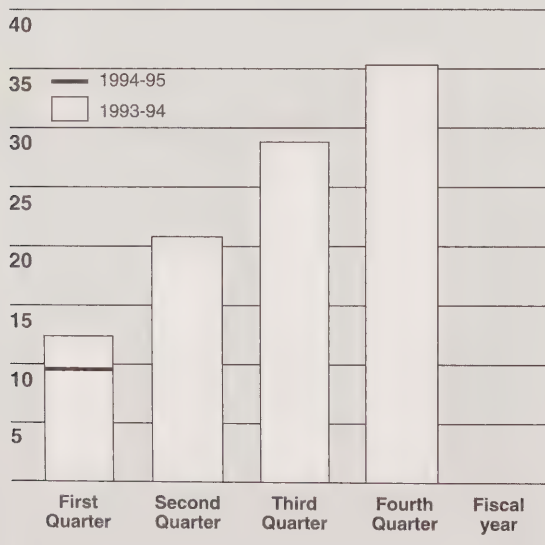
Summary statement of financial transactions

	June		April to June	
	1993	1994	1993-94	1994-95
(in millions of dollars)				
Budgetary transactions				
Revenues	9,197	9,967	24,086	26,882
Program spending	-9,900	-9,443	-26,665	-26,303
Operating balance	-703	524	-2,579	579
Public debt charges	-3,295	-3,402	-9,815	-10,255
Deficit	-3,998	-2,878	-12,394	-9,676
Non-budgetary transactions	-1,756	-1,850	-1,068	-2,884
Financial requirements (excluding foreign exchange transactions)	-5,754	-4,728	-13,462	-12,595
Foreign exchange transactions: net source (+)/requirements (-)	837	-1,279	901	1,656
Total financial requirements	-4,917	-6,007	-12,561	-10,939
Unmatured debt transactions	4,080	4,906	11,138	9,417

The federal deficit 1993-94 and 1994-95

Year to date

billions of dollars



Budgetary revenues up in first quarter

On a year-over-year basis, budgetary revenues over the April 1994 to June 1994 period, increased by \$2.8 billion (11.6 per cent). Most of this increase was attributable to higher personal income tax collections, up \$1.4 billion. This was largely due to lower personal income tax refunds, down \$1.2 billion, pertaining to the 1993 taxation year. This reflects the faster processing of tax returns in March 1994, thereby moving returns which would have been processed in the first fiscal quarter in the past into the previous fiscal year. In addition, the gains in employment since the beginning of 1994, especially in full-time employment, have resulted in increased personal income tax collections. Dampening the impact of these factors were somewhat lower taxes paid on filing, pertaining to the 1993 taxation year and lower quarterly instalment payments.

Corporate income tax collections increased by \$1.0 billion in the first quarter of 1994-95. This reflected both increased corporate profits and lower refunds.

Table 2

Budgetary revenues

	June		April to June		Per cent change
	1993	1994	1993-94	1994-95	
	(in millions of dollars)				%
Income taxes					
Personal income tax	3,955	4,354	11,465	12,907	12.6
Corporate income tax	804	1,154	1,595	2,583	61.9
Unemployment insurance contributions	1,592	1,660	4,638	4,866	4.9
Non-resident tax	74	85	276	299	8.3
Total income tax	6,425	7,253	17,974	20,655	14.9
Excise taxes and duties					
Goods and Services Tax	1,325	1,342	2,591	2,949	13.8
Customs import duties	273	280	711	685	-3.7
Sales and excise taxes	619	591	1,574	1,481	-6.0
Total excise taxes and duties	2,217	2,213	4,876	5,115	4.9
Other					
Other tax revenue	30	25	90	97	7.2
Non-tax revenue	525	476	1,146	1,015	-11.4
Total other revenues	555	501	1,236	1,112	-10.2
Total budgetary revenues	9,197	9,967	24,086	26,882	11.6

Unemployment insurance premium contributions rose by \$0.2 billion, due to higher premium rates in 1994 than in 1993, an increase in maximum insurable earnings – the applicable base to which premium rates are applied – and higher employment.

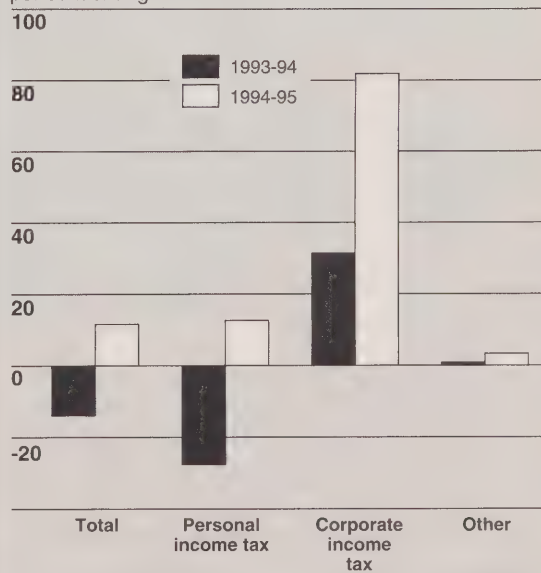
Total excise taxes and duties were up \$0.2 billion, with all of the increase due to higher Goods and Services Tax (GST) collections.

- Strong consumer demand since the beginning of the year accounts for most of the increase in GST collections.
- In contrast, customs import duties declined, in part reflecting reductions in tariffs under the Canada-United States Free Trade Agreement.
- Sales and excise taxes were down, due to reductions in the excise tax on tobacco products announced on February 8, 1994.

Budgetary revenues 1993-94 and 1994-95

April to June
Year-over-year growth

per cent change



The Fiscal Monitor

Table 3

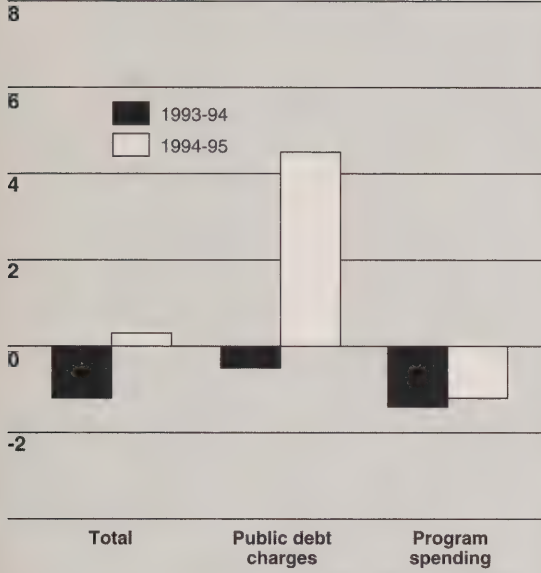
Budgetary expenditures

	June		April to June		Per cent change
	1993	1994	1993-94	1994-95	%
	(in millions of dollars)				
Transfers payments to:					
Persons:					
Elderly benefits	1,651	1,716	4,871	5,054	3.8
Unemployment insurance benefits	1,446	1,194	4,600	3,953	-14.1
Veterans' pensions/allowances	119	121	351	354	0.7
Total	3,216	3,031	9,822	9,360	-4.7
Other levels of government					
Established programs financing	780	752	2,339	2,256	-3.5
Fiscal transfers	878	907	2,468	2,618	6.1
Canada Assistance Plan	768	776	1,878	2,093	11.4
Total	2,425	2,435	6,686	6,968	4.2
Other					
Agricultural subsidies	51	50	101	145	43.9
Indian and Inuit Programs	240	262	1,088	1,159	6.5
Regional development	12	10	29	16	-46.0
Science and Technology	64	67	152	151	-0.9
International assistance	118	108	317	316	-0.3
Other	538	488	1,177	1,113	-3.7
Total	1,023	985	2,864	2,900	1.3
Total transfers	6,664	6,451	19,372	19,228	-0.7
Payments to Crown corporations					
Canadian Broadcasting Corporation	86	83	337	367	8.9
Canada Mortgage and Housing Corporation	134	168	387	481	24.2
Other	136	124	341	353	9.1
Total	356	375	1,065	1,201	12.8
Operating and capital expenditures					
Defence	959	826	2,182	1,923	-11.9
All other departmental expenditures	1,921	1,791	4,046	3,951	-2.3
Total	2,880	2,626	6,228	5,884	-5.5
Total program expenditures	9,900	9,443	26,665	26,303	-1.4
Public debt charges	3,295	3,402	9,815	10,255	4.5
Total budgetary expenditures	13,195	12,845	36,480	36,558	0.2

Budgetary expenditures 1993-94 and 1994-95

April to June
Year-over-year growth

per cent change



Budgetary expenditures higher due to higher interest rates

In the first quarter of 1994-95, total budgetary expenditures were up 0.2 per cent, or \$0.1 billion, on a year-over-year basis. Public debt charges, the largest single component of budgetary expenditures, accounted for all of this increase.

- The increase in public debt charges reflects the impact of higher interest rates.

Program spending lower

Program spending declined by \$0.4 billion (1.4 per cent) in the April to June 1994 period, compared to the same period in 1993-94. This decline reflects a number of factors:

- lower unemployment insurance benefits, down 14.1 per cent, reflecting a decline in the number of persons eligible for unemployment insurance benefits and the impact of the December 1992 Economic and Fiscal Statement measures. These reduced the benefit rate for new beneficiaries from 60 per cent to 57 per cent

of maximum insurable earnings, effective April 1993, and excluded those who quit their jobs without just cause;

- lower cash transfer payments to provinces under Established Programs Financing. This is due to the ongoing impact of restraint measures announced in previous budgets;
- lower defence spending, due to the impact of restraint measures and the timing of payments; and,
- lower spending on operating and capital by the non-defence departments, also reflecting the impact of restraint measures.

In contrast, increases were recorded in other transfers to provinces, including the Canada Assistance Plan, elderly benefits, and other transfers and payments to Crown corporations. For the most part, with the exception of elderly benefits, these increases reflect changes in the timing of payments, and are not indicative of the spending for the year as a whole.

Financial requirements lower

Financial requirements measure the amount by which cash going out from the Government exceeds cash coming in. Financial requirements are lower than the deficit, as they also include the net source of funds from non-budgetary transactions. The latter includes transactions in loans, investments and advances, government employees' pension accounts, other specified accounts, and other financial assets and liabilities.

Non-budgetary transactions in the April to June 1994 period resulted in a net requirement of funds amounting to \$2.9 billion, compared to \$1.1 billion recorded in the corresponding period of 1993-94. This reflects increased loans to Crown corporations and lags associated with the encashment of personal income refund cheques.

As a result, financial requirements, excluding foreign exchange transactions, amounted to \$12.6 billion in the first quarter of 1994-95, down \$0.9 billion from that recorded in the first quarter of 1993-94.

The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange

The Fiscal Monitor

Table 4

The deficit and financial requirements

	June		April to June	
	1993	1994	1993-94	1994-95
(in millions of dollars)				
Deficit	-3,998	-2,878	-12,394	-9,676
Loans, investments, and advances				
Crown corporations	77	-20	453	-241
Other	-39	-59	-95	-189
Total	38	-79	358	-430
Specified purpose accounts				
Canada Pension Plan Account	-21	336	1,133	1,520
Superannuation accounts	1,365	1,436	1,080	1,116
Other	-347	-99	-1,359	-929
Total	997	1,673	854	1,717
Other transactions	-2,791	-3,444	-2,280	-4,206
Total non-budgetary transactions	-1,756	-1,850	-1,068	-2,919
Financial requirements (excluding foreign exchange transactions)	-5,754	-4,728	-13,462	-12,595

Table 5

Financial requirements, foreign exchange and unmatured debt transactions

	June		April to June	
	1993	1994	1993-94	1994-95
(in millions of dollars)				
Financial requirements (excluding foreign exchange transactions)	-5,754	-4,728	-13,462	-12,595
Foreign exchange transactions				
Net international reserves	1,188	-2,448	1,152	-458
Unmatured debt transactions payable in foreign currencies	-351	1,169	-251	2,114
Total	837	-1,279	901	1,656
Total financial requirements	-4,917	-6,007	-12,561	-10,939
Unmatured debt transactions				
Marketable bonds	1,663	4,500	5,238	9,376
Canada Savings Bonds	-434	-565	-1,071	-1,921
Treasury bills	2,300	850	6,100	1,150
Other	39	1,168	138	2,111
Sub-total	3,568	5,953	10,405	11,116
Less:				
Government's holding of unmatured debt	161	122	482	415
Unmatured debt transactions payable in foreign currency	351	-1,169	251	-2,114
Sub-total	512	1,047	733	-1,699
Total unmatured debt transactions payable in Canadian dollars	4,080	4,906	11,138	9,417
Change in cash balance	-837	-1,101	-1,423	-1,522

Table 6
Cash, unmatured debt and debt balances

	at June 30	
	1993	1994
	(in millions of dollars)	
Cash balances at end of period		
In Canadian dollars	1,423	591
In foreign currencies	34	22
Total cash balance	1,457	613
Unmatured debt balance		
Payable in Canadian dollars –		
Marketable bonds	183,704	212,821
Canada Savings Bonds	33,298	29,411
Treasury bills	168,150	167,550
Other	3,894	3,495
Sub-total	389,046	413,277
Less:		
Government's holdings of unmatured debt	553	562
Total	388,493	412,715
Payable in foreign currencies –		
Marketable bonds	2,858	5,019
Notes and loans	0	0
Canada bills	2,301	7,763
Sub-total	5,169	12,782
Less:		
Government's holdings of unmatured debt	0	0
Total unmatured debt	393,652	425,497

market. It fulfils this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure on the currency.

In the first quarter of 1994-95, foreign exchange transactions provided a net source of funds amounting to \$1.7 billion, up \$0.8 billion from the first quarter of 1993-94. The increase reflects the larger depreciation in the Canadian dollar in the first quarter of this year compared to last year.

As a result, total financial requirements, including foreign exchange transactions, were \$10.9 billion in the first quarter of 1994-95, down \$1.6 billion from the net requirement in the same period last year.

To finance these requirements, the Government borrows from the private sector and/or draws down its cash reserves. Total borrowings from the private sector (unmatured debt transactions) amounted to

\$9.4 billion in the first quarter of 1994-95, down \$1.7 billion from that borrowed on financial markets during the same period last year. Cash balances, as of June 30, 1994, stood at \$0.6 billion, down \$0.8 billion from June 30, 1993.

The debt servicing and reduction account

In June 1992, legislation to establish the Debt Servicing and Reduction Account received Royal Assent. As a result, effective April 1, 1991, all Goods and Services Tax revenue net of the applicable input tax credits, rebates, and the low-income credit, along with the net proceeds from the sale of Crown corporations and gifts to the Crown identified for debt reduction must, by law, go directly to the Debt Servicing and Reduction Account. The funds in this Account can only be used to pay the cost of servicing the public debt and ultimately to reduce the debt. The Account is audited on an annual basis by the Auditor General of Canada.

The Fiscal Monitor

Table 7

Debt servicing and reduction account

	1991-92	1992-93	April to March 1993-94	April to June 1994-95
	(in millions of dollars)			
Gross GST collected	29,564	30,516	31,648	7,273
<i>Less:</i>				
Input tax credit	10,068	10,702	11,499	3,072
Rebates	1,262	1,436	1,450	311
GST paid by federal departments	804	1,006	924	233
Quarterly low-income tax credit	2,262	2,503	2,685	708
Net GST	15,168	14,868	15,083	2,949
GST penalties and interest received	19	71		
Gains from wind-up of interest in Crown corporations/disposal of shares in Crown corporations	2	110		
Gifts to the Crown	0.4	0.1	0.1	-
Proceeds to the Crown	15,190	15,050	15,083	2,949

Figures for 1991-92 and 1992-93 are from the *Public Accounts of Canada* – 1992-93.



The Fiscal Monitor

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Financial Results for July 1994

The deficit in July 1994 was estimated at \$2.7 billion, down \$0.8 billion from July 1993.

- The year-over-year improvement in the deficit was attributable to higher budgetary revenues, up \$0.8 billion or 9.0 per cent, and lower program spending, down \$0.4 billion or 4.2 per cent. In contrast, public debt charges in July 1994 were up \$0.4 billion, or 11.8 per cent, from year earlier levels.
- Most of the increase in budgetary revenues was due to higher personal income tax collections, up \$0.9 billion, and corporate income tax collections, up \$0.6 billion. The higher tax collections reflected continued improvements in economic output, employment and profitability. In addition, tax refunds were lower in July 1994 than in July 1993. Excise taxes and duties were down \$0.7 billion, due to increased refunds and rebates, in part reflecting the tobacco excise tax reduction in February 1994.
- All major components of program spending were lower in July 1994 than in July 1993, reflecting the impact of improved economic conditions (unemployment insurance benefits were down \$0.2 billion) and constraints on spending due to budget actions. The increase in public debt charges resulted from higher interest rates.

\$3.6 billion and lower program spending, down \$0.8 billion, partly offset by higher public debt charges.

- Higher personal income tax collections accounted for about half the increase in budgetary revenues. This increase in collections reflected growth in the applicable tax base resulting from the employment gains registered since the beginning of 1994. In addition, personal income tax refunds were lower than last year due to the faster processing of tax returns by Revenue Canada in March 1994, as noted in the February 1994 budget.
- Corporate income tax collections also registered a notable gain in the first four months of 1994-95, up \$1.6 billion, compared to year earlier levels, reflecting increases in corporate profits.
- Excise taxes and duties were lower, due to the timing of collections and the payment of refunds and rebates.
- The year-over-year decline in program spending was attributable to lower expenditures on unemployment insurance benefits, defence, and operating and capital spending. Transfers to other levels of government were up, primarily due to the timing of payments. Public debt charges advanced by 6.3 per cent, primarily due to the increases in interest rates on the public debt and in the stock of debt.

Financial Results for April to July 1994

Over the first four months of the fiscal year (April to July), the deficit was \$3.5 billion lower than in the same period in 1993-94. The improvement in the deficit was due to higher revenues, up

The improvement in the deficit results to date, coupled with the ongoing impact of the expenditure restraint measures and the fact that increased reserves for contingencies were established for 1994-95 in the February 1994 budget, should ensure that the 1994-95 deficit target is met, despite the rise in interest rates.

SEP 14 1994

University of Toronto



The Fiscal Monitor

Table 1

Government of Canada Summary statement of financial transactions¹

	July		April to July	
	1993	1994	1993-94	1994-95
(in millions of dollars)				
Budgetary transactions				
Revenues	8,824	9,617	32,910	36,499
Program spending	-9,206	-8,807	-35,871	-35,111
Operating balance	-382	810	-2,961	1,388
Public debt charges	-3,174	-3,547	-12,989	-13,802
Deficit	-3,556	-2,736	-15,950	-12,414
Non-budgetary transactions	1,389	2,001	321	-919
Financial requirements (excluding foreign exchange transactions)	-2,167	-736	-15,629	-13,333
Foreign exchange transactions	-69	196	832	1,852
Financial requirements	2,236	-540	-14,797	-11,481
Unmatured debt transactions	3,172	1,546	14,309	10,963

Note: Data compiled by the Receiver General for Canada.

¹ (+) indicates a source of funds, while (-) indicates a requirement for funds.

Table 2

Government of Canada Detailed statement of budgetary transactions – revenues

	July		April to July	
	1993	1994	1993-94	1994-95
(in millions of dollars)				
Personal income tax	4,040	4,933	15,505	17,839
Corporate income tax	623	1,197	2,218	3,780
Unemployment insurance contributions	1,602	1,691	6,240	6,557
Non-resident tax	120	178	396	477
Total income tax	6,385	7,999	24,359	28,653
Excise taxes and duties				
Goods and Services Tax	928	411	3,519	3,360
Customs import duties	267	232	978	918
Sales and excise taxes	654	502	2,228	1,983
Total excise taxes/duties	1,849	1,145	6,725	6,261
Other tax revenue	6	29	96	126
Total tax revenue	8,240	9,173	31,180	35,040
Non-tax revenue	584	444	1,730	1,459
Total budgetary revenues	8,824	9,617	32,910	36,499

Table 3
Government of Canada
Detailed statement of budgetary transactions – expenditures

	July		April to July	
	1993	1994	1993-94	1994-95
(in millions of dollars)				
Transfer payments to:				
Persons				
Elderly benefits	1,660	1,706	6,530	6,760
Unemployment insurance benefits	1,237	1,034	5,837	4,987
Other	122	119	473	473
Total	3,019	2,859	12,840	12,220
Other levels of government				
Established Programs Financing	780	763	3,119	3,019
Fiscal transfers	858	802	3,327	3,420
Canada Assistance Plan	697	719	2,575	2,813
Total	2,335	2,284	9,021	9,252
Other				
Agriculture	68	36	169	181
Indians and Inuit	235	220	1,323	1,379
Regional development	23	7	46	23
Science and technology	32	35	184	185
International assistance	182	242	499	557
Other	478	439	1,660	1,554
Total	1,018	979	3,881	3,879
Total transfers	6,372	6,122	25,742	25,351
Payments to Crown corporations	415	318	1,481	1,518
Operating and capital expenditures				
Defence	962	943	3,144	2,866
All other departmental expenditures	1,457	1,424	5,504	5,376
Total	2,419	2,367	8,648	8,242
Total program spending	9,206	8,807	35,871	35,111
Public debt charges	3,174	3,547	12,989	13,802
Total budgetary expenditures	12,380	12,354	48,860	48,913

Table 4
Government of Canada
Non-budgetary transactions

	July		April to July	
	1993	1994	1993-94	1994-95
(in millions of dollars)				
Loans, investments, and advances				
Crown corporations	433	412	886	171
Other	-22	-27	-117	-216
Total	411	385	769	-45
Specified purpose accounts				
Canada Pension Plan Account	-384	-325	750	1,195
Superannuation accounts	535	662	1,615	1,778
Other	161	304	-1,199	-615
Total	312	641	1,166	2,358
Other transactions	666	975	-1,614	-3,232
Total non-budgetary transactions	1,389	2,001	321	-919

The Fiscal Monitor

Table 5

Government of Canada Foreign exchange and unmatured debt transactions

	July		April to July	
	1993	1994	1993-94	1994-95
(in millions of dollars)				
Foreign exchange transactions				
Net international reserves	-485	-2,714	667	-3,172
Unmatured debt transactions payable in foreign currencies	416	2,910	165	5,024
Total	-69	196	832	1,852
Unmatured debt transactions				
Marketable bonds	2,830	6,123	8,067	15,500
Canada Savings Bonds	-272	-566	-1,343	-2,487
Treasury bills	150	-1,550	6,250	-
Other	740	329	878	2,440
Subtotal	3,448	4,336	13,852	15,453
Less:				
Government's holding of unmaturred debt	140	120	622	534
Unmatured debt transactions payable in foreign currencies	-416	-2,910	-165	-5,024
Subtotal	-276	-2,790	457	-4,490
Total unmaturred debt transactions payable in Canadian dollars	3,172	1,546	14,309	10,963

Table 6

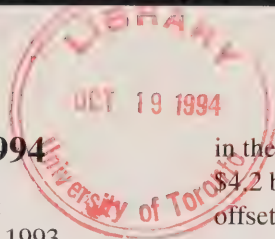
Government of Canada Cash, unmaturred debt and debt balances

	at July 31	
	1993	1994
(in millions of dollars)		
Cash balances at end of period		
In Canadian dollars	2,327	1,605
In foreign currencies	67	14
Total cash balance	2,394	1,619
Unmaturred debt balance		
Payable in Canadian dollars –		
Marketable bonds	186,533	216,171
Canada Savings Bonds	33,026	28,845
Treasury bills	168,300	166,000
Other	4,218	3,687
Subtotal	392,077	414,703
Less:		
Government's holdings of unmaturred debt	414	442
Total	391,663	414,261
Payable in foreign currencies –		
Marketable bonds	2,858	7,792
Notes and loans	0	0
Canada bills	2,717	7,900
Subtotal	5,575	15,692
Less:		
Government's holdings of unmaturred debt	0	0
Total unmaturred debt	397,238	429,953



The Fiscal Monitor

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Financial Results for August 1994

The deficit in August 1994 was estimated at \$1.8 billion, down \$1.0 billion from August 1993.

- The year-over-year improvement in the deficit was attributable to higher budgetary revenues, up \$0.6 billion, lower program spending, down \$0.1 billion, lower public debt charges down \$0.2 billion.
- The increase in budgetary revenues was due to higher personal income tax collections, up \$0.4 billion, corporate income tax collections, up \$0.2 billion, non-tax revenues, up \$0.2 billion, and unemployment insurance premiums, up \$0.1 billion. The higher collections reflect continued improvements in economic output, employment and profitability. Excise taxes and duties were down, \$0.2 billion, due in part to the tobacco excise tax reduction in February 1994, as well as timing considerations.
- Lower unemployment insurance benefit payments, reduced transfers to other levels of government, lower expenditures related to Crown corporations, and reduced departmental operating expenses contributed to the overall decline in program spending. These declines in spending reflect the impact of improved economic conditions and constraints on spending imposed in the February 1994 budget. The decline in public debt charges is due to the amortization of bond premiums, discounts and commissions, which in previous months had been recorded on a cash basis. The change in accounting policy for such charges was announced in the *Annual Financial Report* for 1993-94.

Financial Results for April to August 1994

Over the first five months of the fiscal year (April to August), the deficit was \$4.5 billion lower than in the same period in 1993-94. The improvement

in the deficit was due to higher revenues, up \$4.2 billion. Lower program spending more than offset the increase in public debt.

- The increase in personal income tax collections, up \$2.7 billion, reflects growth in the applicable tax base resulting from the employment gains registered since the beginning of 1994 and lower personal income tax refunds due to the faster processing of tax returns by Revenue Canada. About \$1.8 billion of refunds that processed last year in the April to August period were processed in March 1994.
- Corporate income tax also registered a notable gain in the first four months of 1994-95, up \$1.8 billion, compared to the year earlier level, reflecting increases in corporate profits.
- Excise taxes and duties were lower, due to the timing of collections and the payment of refunds and rebates.
- The year-over-year decline in program spending was attributable to lower expenditures on unemployment insurance benefits, defence, and operating and capital spending. Transfers to other levels of government were up, primarily due to the timing of payments.
- Public debt charges advanced by 3.5 per cent, primarily due to the increases in interest rates on the public debt.

The improvement in the deficit results to date, coupled with the ongoing impact of the expenditure restraint measures and the fact that increased reserves for contingencies were established for 1994-95 in the February 1994 budget, should ensure that the 1994-95 deficit target is met, despite the rise in interest rates.



The Fiscal Monitor

Table 1

Government of Canada

Summary statement of financial transactions¹

	August		April to August	
	1993	1994	1993-94	1994-95
	(in millions of dollars)			
Budgetary transactions				
Revenues	9,517	10,150	42,427	46,649
Program spending	-9,143	-9,055	-45,014	-44,165
Operating balance	374	1,095	-2,587	2,484
Public debt charges	-3,173	-2,927	-16,162	-16,730
Deficit	-2,799	-1,832	-18,749	-14,246
Non-budgetary transactions	1,386	-152	1,706	-1,071
Financial requirements (excluding foreign exchange transactions)	-1,413	-1,984	-17,043	-15,317
Foreign exchange transactions	2,831	1,263	3,663	3,115
Financial requirements	1,418	-721	-13,380	-12,202
Unmatured debt transactions	-703	524	13,607	11,487

Note: Data compiled by the Receiver General for Canada.

¹ (+) indicates a source of funds, while (-) indicates a requirement for funds.

Table 2

Government of Canada

Detailed statement of budgetary transactions – revenues

	August		April to August	
	1993	1994	1993-94	1994-95
	(in millions of dollars)			
Personal income tax	3,780	4,146	19,285	21,985
Corporate income tax	824	1,063	3,042	4,843
Unemployment insurance contributions	1,598	1,678	7,838	8,236
Non-resident tax	106	100	502	577
Total income tax	6,308	6,987	30,667	35,641
Excise taxes and duties				
Goods and Services Tax	1,953	1,911	5,473	5,271
Customs import duties	287	229	1,265	1,147
Sales and excise taxes	695	593	2,924	2,575
Total excise taxes/duties	2,935	2,733	9,662	8,993
Other tax revenue	21	20	117	146
Total tax revenue	9,264	9,740	40,446	44,780
Non-tax revenue	253	410	1,981	1,869
Total budgetary revenues	9,517	10,150	42,427	46,649

Table 3
Government of Canada
Detailed statement of budgetary transactions – expenditures

	August		April to August	
	1993	1994	1993-94	1994-95
(in millions of dollars)				
Transfer payments to:				
Persons				
Elderly benefits	1,653	1,724	8,183	8,483
Unemployment insurance benefits	1,415	1,233	7,252	6,221
Other	119	117	592	590
Total	3,187	3,074	16,028	15,293
Other levels of government				
Established Programs Financing	780	763	3,898	3,782
Fiscal transfers	806	815	4,133	4,235
Canada Assistance Plan	635	724	3,310	3,537
Total	2,320	2,302	11,340	11,554
Other				
Agriculture	37	51	206	231
Indians and Inuit	215	225	1,537	1,604
Regional development	26	36	83	74
Science and technology	75	78	260	263
International assistance	230	158	730	715
Other	332	506	1,982	2,043
Total	915	1,054	4,798	4,931
Total transfers	6,422	6,430	32,166	31,779
Payments to Crown corporations	327	223	1,808	1,741
Operating and capital expenditures				
Defence	901	953	4,045	3,819
All other departmental expenditures	1,493	1,449	6,995	6,826
Total	2,394	2,402	11,040	10,645
Total program spending	9,143	9,055	45,014	44,165
Public debt charges	3,173	2,927	16,162	16,730
Total budgetary expenditures	12,316	11,982	61,176	60,895

Table 4
Government of Canada
Non-budgetary transactions

	August		April to August	
	1993	1994	1993-94	1994-95
(in millions of dollars)				
Loans, investments, and advances				
Crown corporations	1	36	888	207
Other	-51	20	-169	-196
Total	-50	56	719	11
Specified purpose accounts				
Canada Pension Plan Account	183	-305	933	890
Superannuation accounts	-66	-115	1,549	1,663
Other	-190	-110	-1,390	-725
Total	-73	-530	1,092	1,828
Other transactions	1,509	322	-105	-2,910
Total non-budgetary transactions	1,386	-152	1,706	-1,071

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Table 5

Government of Canada Foreign exchange and unmatured debt transactions

	August		April to August	
	1993	1994	1993-94	1994-95
(in millions of dollars)				
Foreign exchange transactions				
Net international reserves	-1,445	1,219	2,112	-1,953
Unmatured debt transactions payable in foreign currencies	1,386	44	1,551	5,068
Total	2,831	1,263	3,663	3,115
Unmatured debt transactions				
Marketable bonds	1,799	3,400	9,869	18,898
Canada Savings Bonds	-257	-376	-1,601	-2,863
Treasury bills	-2,000	-2,650	4,250	-2,650
Other	994	43	1,872	2,484
Subtotal	536	417	14,390	15,869
Less:				
Government's holding of unmatured debt	147	151	768	686
Unmatured debt transactions payable in foreign currencies	-1,386	-44	-1,551	-5,068
Subtotal	-1,239	107	-783	-4,382
Total unmatured debt transactions payable in Canadian dollars	-703	524	13,607	11,487

Table 6

Government of Canada Cash, unmatured debt and debt balances

	at August 31	
	1993	1994
(in millions of dollars)		
Cash balances at end of period		
In Canadian dollars	2,980	1,380
In foreign currencies	129	42
Total cash balance	3,109	1,422
Unmatured debt balance		
Payable in Canadian dollars –		
Marketable bonds	188,333	219,571
Canada Savings Bonds	32,769	28,468
Treasury bills	166,300	163,350
Other	3,826	3,686
Subtotal	391,228	415,075
Less:		
Government's holdings of unmatured debt	267	290
Total	390,961	414,785
Payable in foreign currencies –		
Marketable bonds	2,858	7,792
Notes and loans	0	0
Canada bills	4,103	7,944
Subtotal	6,961	15,736
Less:		
Government's holdings of unmatured debt	0	0
Total unmatured debt	397,922	430,521



The Fiscal Monitor

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Highlights of financial results for September 1994

Deficit down \$0.8 billion in September 1994

The deficit in September 1994 was estimated at \$1.5 billion, down \$0.8 billion from September 1993.

- Most of the year-over-year improvement in the deficit was attributable to higher budgetary revenues, which were up \$1.0 billion or 10.9 per cent on a year-over-year basis. Program spending was down by \$0.2 billion, while public debt charges were up \$0.4 billion from year earlier levels.

Deficit for April to September 1994 down \$5.1 billion

Over the first six months of the fiscal year, the deficit was \$5.1 billion lower than in the same period in 1993-94.

- Budgetary revenues were up \$5.0 billion, on a year-over-year basis. About \$3 billion of this increase was attributable to the impact of one-time factors, with higher corporate income tax collections accounting for most of the remaining increase.
- Program spending was \$1.1 billion lower, primarily due to lower expenditures on unemployment insurance benefits and the impact of the February 1994 budget cuts on defence and departmental operating costs.
- Public debt charges were up by \$1.0 billion, reflecting the impact of the increase in the higher interest rates associated with servicing that debt.

Deficit outlook for 1994-95 remains unchanged

In the recently released economic and fiscal update document entitled *Creating a Healthy Fiscal Climate*, the deficit for the year as a whole was estimated at \$39.7 billion, down \$2.3 billion from the final outcome for 1993-94.

The financial results to date suggest that the final deficit outcome for 1994-95 could be somewhat lower than \$39.7 billion. However, a simple extrapolation of the deficit results to date would be inappropriate for two reasons.

- First, about half of the revenue gain experienced to date relates to one-time factors, which will not be repeated in the second half of the year.
- Second, current developments suggest that interest rates in the second half of the fiscal year will be well above the relatively low levels that prevailed in the corresponding period of 1993-94. The stock of debt will also be much higher. As a result, public debt charges should record larger increases than experienced in the first half.

These factors were taken into account in deriving the \$39.7 billion deficit estimate for the 1994-95 fiscal year.



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Table 1

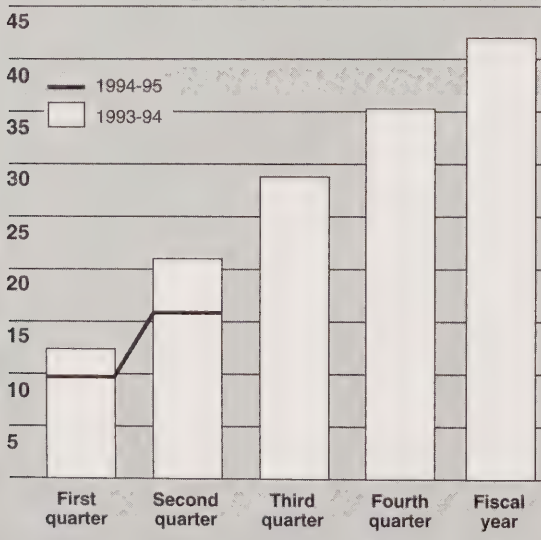
Summary statement of financial transactions

	September		April to September	
	1993	1994	1993-94	1994-95
(in millions of dollars)				
Budgetary transactions				
Revenues	10,171	11,183	52,599	57,597
Program spending	-9,289	-9,086	-54,303	-53,252
Operating balance	882	2,097	-1,704	4,345
Public debt charges	-3,172	-3,556	-19,334	-20,285
Deficit	-2,290	-1,459	-21,038	-15,940
Non-budgetary transactions	451	-182	2,159	-1,017
Financial requirements (excluding foreign exchange transactions)	-1,839	-1,641	-18,879	-16,957
Foreign exchange transactions: net source (+)/requirements (-)	-1,156	-2,073	2,507	1,042
Total financial requirements	-2,995	-3,714	-16,372	-15,915
Unmatured debt transactions	1,004	-3,722	14,610	15,209

The federal deficit 1993-94 and 1994-95

Year to date

billions of dollars



The distribution of monthly budgetary revenues by source for the period April 1994 to August 1994 has been changed to correct for systems problems encountered by Public Works and Government Services Canada and Revenue Canada. These changes affect the distribution of tax revenue but have only a marginal impact on the reported deficit. The revised figures are presented at the end of this report.

Budgetary revenues up

On a year-over-year basis, budgetary revenues over the April 1994 to September 1994 period increased by \$5.0 billion (9.5 per cent). Most of this increase was attributable to higher personal income tax collections, up \$3.1 billion. However, this increase was largely due to lower personal income tax refunds for the 1993 taxation year which were down \$2.5 billion. This resulted from:

- the faster processing of tax returns in March 1994, thereby moving returns which would have been processed in the first half of the current fiscal year into the previous fiscal year; and
- the restructuring of the child benefit system, whereby benefits are now paid on a monthly basis through the Child Tax Benefit; in previous years, part of benefit was paid at the time of tax filing and included in refunds paid.

Table 2

Budgetary revenues

	September		April to September		Per cent change
	1993	1994	1993-94	1994-95	
	(in millions of dollars)				%
Income taxes					
Personal income tax	5,444	5,591	24,729	27,798	12.8
Corporate income tax	223	714	3,265	4,701	44.0
Unemployment insurance contributions	1,603	1,672	9,441	9,907	4.9
Non-resident tax	70	68	571	639	11.9
Total income tax	7,340	8,045	38,006	43,045	13.3
Excise taxes and duties					
Goods and Services Tax	1,561	1,400	7,034	6,880	-2.2
Customs import duties	313	414	1,579	1,696	7.4
Sales and excise taxes	501	770	3,425	3,406	-0.6
Total excise taxes and duties	2,375	2,584	12,038	11,982	-0.5
Other					
Other tax revenue	4	16	121	162	33.5
Non-tax revenue	452	539	2,434	2,407	-1.1
Total other revenues	456	555	2,555	2,569	0.5
Total budgetary revenues	10,171	11,183	52,599	57,597	9.5

Excluding the impact of these one-time factors, personal income tax collections to date are up only marginally from last year.

Corporate income tax collections increased by \$1.4 billion in the first half of 1994-95. This reflected both increased corporate profits and substantially lower refunds.

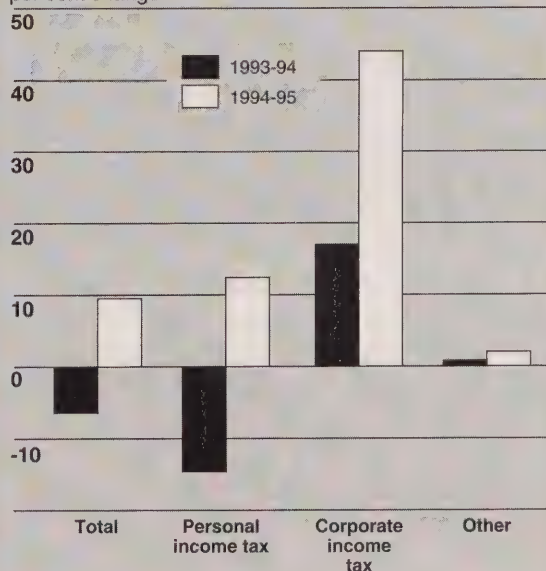
Unemployment insurance premium contributions were up \$0.5 billion, due to higher premium rates in 1994 than in 1993, an increase in maximum insurable earnings and higher employment.

Total excise taxes and duties in the first half of 1994-95 were virtually unchanged from year earlier collections. Goods and Services Tax (GST) collections were down 2.2 per cent on a year-over-year basis. Customs import duties were up strongly, reflecting the strong growth in the value of imports. Sales and excise taxes were down marginally as the impact of the reductions in the tobacco excise tax announced on February 8, 1994 was largely offset by strong advances in energy excise taxes.

Budgetary revenues 1993-94 and 1994-95

April to September
Year-over-year growth

per cent change



The Fiscal Monitor

Table 3

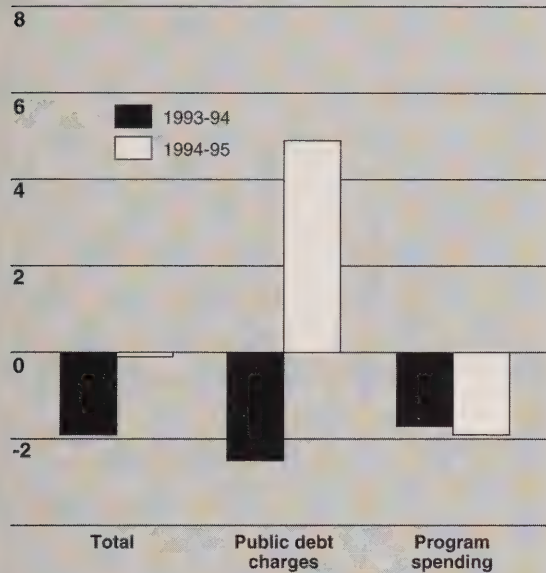
Budgetary expenditures

		September		April to September		Per cent change %
		1993	1994	1993-94	1994-95	
(in millions of dollars)						
Transfers payments to						
Persons						
Elderly benefits	1,660	1,706	9,843	10,190	3.8	
Unemployment insurance benefits	1,221	1,030	8,473	7,250	-14.4	
Veterans' pensions/allowances	117	123	709	713	0.5	
Total	2,998	2,859	19,026	18,153	-4.6	
Other levels of government						
Established Programs Financing	780	763	4,678	4,545	-2.8	
Fiscal transfers	840	829	4,973	5,064	1.8	
Canada Assistance Plan	637	893	3,946	4,430	12.2	
Total	2,256	2,485	13,597	14,039	3.3	
Other						
Agricultural subsidies	30	37	235	268	14.0	
Indian and Inuit programs	230	235	1,767	1,840	4.1	
Regional development	44	45	128	102	-20.4	
Science and Technology	36	35	295	298	0.9	
International assistance	85	109	815	824	1.2	
Other	821	494	2,802	2,555	-8.8	
Total	1,245	955	6,042	5,887	-2.6	
Total transfers	6,500	6,299	38,665	38,079	-1.5	
Payments to Crown corporations						
Canadian Broadcasting Corporation	107	130	595	598	0.5	
Canada Mortgage and Housing Corporation	156	164	860	844	-1.8	
Other	109	147	725	740	2.1	
Total	372	441	2,180	2,182	0.1	
Operating and capital expenditures						
Defence	926	850	4,971	4,670	-6.1	
All other departmental expenditures	1,491	1,496	8,487	8,321	-2.0	
Total	2,417	2,346	13,458	12,991	-3.5	
Total program expenditures	9,289	9,086	54,303	53,252	-1.9	
Public debt charges	3,172	3,556	19,334	20,285	4.9	
Total budgetary expenditures	12,461	12,642	73,637	73,537	-0.1	

Budgetary expenditures 1993-94 and 1994-95

April to September
Year-over-year growth

per cent change



Budgetary expenditures down slightly

In the first half of 1994-95, total budgetary expenditures were down 0.1 per cent, on a year-over-year basis, as lower program spending offset increases in public debt charges.

Public debt charges up

The increase in public debt charges of 4.9 per cent reflects the impact of higher interest rates and increases in the stock of debt. Public debt charges are expected to increase more rapidly over the remaining months of 1994-95, given the rollover of debt at higher interest rates.

Program spending lower

Program spending declined by \$1.0 billion (1.9 per cent) in the April 1994 to September 1994 period, compared to the same period in 1993-94. This decline reflects a number of factors:

- lower unemployment insurance benefits, down 14.4 per cent, reflecting a decline in the number of persons eligible for unemployment insurance

benefits and the impact of the December 1992 Economic and Fiscal and February 1994 budget measures;

- lower transfer payments to provinces under Established Programs Financing. This is due to the ongoing impact of restraint measures announced in previous budgets;
- lower subsidy and other transfer payments due to the impact of the restraint measures announced in the last budget;
- lower defence spending, due to the impact of restraint measures and the timing of payments; and
- lower spending on operating and capital by the non-defence departments, also reflecting the impact of restraint measures announced in the last budget.

In contrast, increases were recorded in elderly benefits and in other transfers to provinces, especially the Canada Assistance Plan. The growth in transfers under the Canada Assistance Plan primarily reflects the timing of payments to the non-equalization receiving provinces and is expected to moderate substantially over the coming months, given the impact of current restraint measures on such transfers. Payments to Crown corporations were largely unchanged from year earlier levels.

Financial requirements lower

Financial requirements measure the amount by which cash going out from the Government exceeds cash coming in. Financial requirements are lower than the deficit, as they also include the net source of funds from non-budgetary transactions. The latter includes transactions in loans, investments and advances, government employees' pension accounts, other specified accounts, and other financial assets and liabilities.

Non-budgetary transactions in the April 1994 to September 1994 period resulted in a net requirement of funds amounting to \$1.0 billion, compared to a net source of \$2.2 billion recorded in the corresponding period of 1993-94. This swing in net requirements primarily relates to an increase in the selling of bonds at discount. Such discounts are amortized over the life of the bond as part of public debt charges, but reported on a cash basis as part of non-budgetary transactions.

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Table 4

The deficit and financial requirements

	September		April to September	
	1993	1994	1993-94	1994-95
	(in millions of dollars)			
Deficit	-2,290	-1,452	-21,038	-15,934
Loans, investments, and advances				
Crown corporations	138	144	1,027	350
Other	62	-25	-107	-220
Total	200	119	920	130
Specified purpose accounts				
Canada Pension Plan Account	-17	-167	916	723
Superannuation accounts	2,134	2,267	3,683	3,929
Other	554	531	-835	-187
Total	2,671	2,631	3,764	4,465
Other transactions	-2,420	-2,938	-2,525	-5,619
Total non-budgetary transactions	451	-188	2,159	-1,024
Financial requirements (excluding foreign exchange transactions)	-1,839	-1,640	-18,879	-16,958

Table 5

Financial requirements, foreign exchange and unmatured debt transactions

	September		April to September	
	1993	1994	1993-94	1994-95
	(in millions of dollars)			
Financial requirements (excluding foreign exchange transactions)	-1,839	-1,640	-18,879	-16,958
Foreign exchange transactions				
Net international reserves	-1,717	-588	395	-2,541
Unmatured debt transactions payable in foreign currencies	561	-1,485	2,112	3,583
Total	-1,156	-2,073	2,507	1,042
Total financial requirements	-2,995	-3,713	-16,372	-15,916
Unmatured debt transactions				
Marketable bonds	1,950	1,915	11,818	20,814
Canada Savings Bonds	-215	-258	-1,816	-3,121
Treasury bills	-850	1,950	3,400	-700
Other	560	-1,486	2,432	998
Subtotal	1,445	2,121	15,834	17,991
Less:				
Government's holding of unmatured debt	120	116	888	801
Unmatured debt transactions payable in foreign currency	-561	1,485	-2,112	-3,583
Subtotal	-441	1,601	-1,224	-2,782
Total unmatured debt transactions payable in Canadian dollars	1,004	3,722	14,610	15,209
Change in cash balance	-1,991	9	-1,762	-707

Table 6
Cash, unmatured debt and debt balances

	at September 30	
	1993	1994
	(in millions of dollars)	
Cash balances at end of period		
In Canadian dollars	1,072	1,406
In foreign currencies	47	25
Total cash balance	1,119	1,431
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	190,283	221,486
Canada Savings Bonds	32,553	28,210
Treasury bills	165,450	165,300
Other	3,825	3,686
Subtotal	392,111	418,682
Less:		
Government's holdings of unmatured debt	147	174
Total	391,964	418,508
Payable in foreign currencies		
Marketable bonds	2,858	7,792
Notes and loans	0	0
Canada bills	4,664	6,459
Subtotal	7,522	14,251
Less:		
Government's holdings of unmatured debt	0	0
Total unmatured debt	399,486	432,759

As a result, financial requirements, excluding foreign exchange transactions, amounted to \$17.0 billion in the first half of 1994-95, down \$1.8 billion from that recorded in the same period in 1993-94.

The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. It fulfils this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure on the currency.

In the first half of 1994-95, foreign exchange transactions provided a net source of funds amounting to \$1.0 billion, down \$1.5 billion from the first half of 1993-94.

As a result, total financial requirements, including foreign exchange transactions, were \$15.9 billion in the first half of 1994-95, down \$0.4 from the net requirement in the same period last year.

To finance these requirements, the Government borrows from the private sector and/or draws down its cash reserves. Total borrowing from the private sector (unmatured debt transactions) amounted to \$15.2 billion in the first half of 1994-95, up \$0.6 billion from that borrowed on financial markets during the same period last year. Cash balances, as of September 30, 1994, stood at \$1.4 billion, up \$0.3 billion from September 30, 1993.

The Fiscal Monitor

Table 7

Restatement of monthly statements of financial operations – 1994

	April	May	June	July	August
	(in millions of dollars)				
Budgetary revenues					
Income taxes					
Personal income tax	3,639	5,039	4,443	4,909	4,177
Corporate income tax	366	867	1,010	968	776
Unemployment insurance premiums	1,581	1,625	1,660	1,691	1,678
Non-resident tax	115	97	83	177	99
Total income tax	5,701	7,628	7,196	7,745	6,730
Excise taxes and duties					
Goods and Services Tax	126	1,603	1,377	631	1,743
Customs import duties	156	249	280	303	294
Sales and excise taxes	46	758	586	504	742
Total excise taxes and duties	328	2,610	2,243	1,438	2,779
Other					
Other tax revenue	43	29	25	29	20
Non-tax revenue	276	264	475	444	411
Total other revenues	319	293	500	473	431
Total budgetary revenues	6,348	10,531	9,939	9,656	9,940
Budgetary expenditures	11,552	12,161	12,845	12,355	11,982
Deficit	-5,204	-1,630	-2,906	-2,699	-2,042
Non-budgetary transactions					
Loans, investments, and advances	-257	-95	-78	385	56
Specified purpose accounts	-570	650	1,700	604	-549
Other transactions	-669	-93	-3,444	974	551
Total	-1,496	462	-1,822	1,963	58
Financial requirements (excluding foreign exchange transactions)	-6,700	-1,168	-4,728	-736	-1,984

Normally the Fiscal Monitor for the end of each quarter contains details on the Debt Servicing and Reduction Account. Space limitations do not permit their publication in this issue. Details will be made available upon request. For further information contact: P. DeVries at 996-7397. Cet imprimé est également offert en français. November 1994



The Fiscal Monitor

A Publication of the Department of Finance



Financial Results for October 1994

The deficit in October 1994 was estimated at \$3.3 billion, down \$0.6 billion from October 1993.

- The year-over-year improvement in the deficit was attributable to higher budgetary revenues, up \$0.9 billion or 11.0 per cent. Program spending was down slightly while public debt charges were up \$0.4 billion, or 13.7 per cent, from the year earlier level.
- The increase in budgetary revenues was due to higher corporate income tax collections, up \$0.3 billion, Goods and Services Tax revenues, up \$0.3 billion, and unemployment insurance premiums, up \$0.2 billion. The higher collections reflect continued improvements in economic output, employment, and profitability.
- Lower unemployment insurance benefit payments, decreased expenditures related to Crown corporations, and reduced departmental operating expenses, including defence, contributed to the overall decline in program spending. These declines in spending reflect the impact of improved economic conditions and constraints on spending imposed in the February 1994 budget. These declines, however, were largely offset by higher elderly benefit payments and increased transfers to other levels of government, the latter primarily reflecting the impact of prior-year adjustments. The increase in public debt charges resulted from higher interest rates and the costs associated with servicing a higher stock of debt.

Financial Results for April to October 1994

Over the seven months of the fiscal year (April to October), the deficit was \$5.7 billion lower than in the same period in 1993-94. The improvement in the deficit was due to higher revenues, up \$5.9 billion or 9.7 per cent, and lower program spending, down \$1.1 billion or 1.8 per cent. Public debt charges were up \$1.4 billion or 6.1 per cent.

- About half of the increase in budgetary revenues was attributable to the impact of one-time factors, including the faster processing of personal income tax returns by Revenue Canada in March 1994 – which resulted in lower personal income tax refunds in the first half of 1994-95 – and the ending of transitional costs associated with the restructuring of the child benefit system. Higher corporate income tax collections and increased unemployment premiums accounted for most of the remaining increase in overall revenues.
- The decline in program spending was due to lower expenditures on unemployment insurance benefits and the impact of the February 1994 budget cuts on defence and departmental operating costs.
- The increase in public debt charges reflected the increase in the debt and higher interest rates associated with servicing that debt.

The financial results to date suggest that the final deficit outcome for 1994-95 could be somewhat lower than \$39.7 billion. The final outcome, however, will largely depend upon the impact of current interest rate developments and end-of-year adjustments.



The Fiscal Monitor

Table 1

Government of Canada Summary statement of financial transactions¹

	October		April to October	
	1993	1994	1993-94	1994-95
(in millions of dollars)				
Budgetary transactions				
Revenues	8,622	9,571	61,221	67,167
Program spending	-9,520	-9,431	-63,823	-62,683
Operating balance	-898	140	-2,602	4,484
Public debt charges	-3,029	-3,445	-22,363	-23,730
Deficit	-3,927	-3,305	-24,965	-19,246
Non-budgetary transactions	1,045	1,588	3,203	570
Financial requirements (excluding foreign exchange transactions)	-2,882	-1,717	-21,762	-18,676
Foreign exchange transactions	500	-618	3,007	424
Financial requirements	-2,382	-2,335	-18,755	-18,252
Unmatured debt transactions	4,194	2,126	18,805	17,335

Note: Data compiled by the Receiver General for Canada.

¹ (+) indicates a source of funds, while (-) indicates a requirement for funds.

Table 2

Government of Canada Detailed statement of budgetary transactions – revenues

	October		April to October	
	1993	1994	1993-94	1994-95
(in millions of dollars)				
Personal income tax	4,373	4,494	29,102	32,292
Corporate income tax	501	839	3,766	5,541
Unemployment insurance contributions	1,500	1,692	10,941	11,599
Non-resident tax	101	109	673	747
Total income tax	6,475	7,134	44,482	50,179
Excise taxes and duties				
Goods and Services Tax	753	1,063	7,788	7,944
Customs import duties	310	321	1,889	2,016
Sales and excise taxes	649	714	4,074	4,121
Total excise taxes/duties	1,712	2,098	13,751	14,081
Other tax revenue	54	20	175	182
Total tax revenue	8,241	9,252	58,408	64,442
Non-tax revenue	381	319	2,813	2,725
Total budgetary revenues	8,622	9,571	61,221	67,167

Table 3

Government of Canada
Detailed statement of budgetary transactions – expenditures

	October		April to October	
	1993	1994	1993-94	1994-95
(in millions of dollars)				
Transfer payments to:				
Persons				
Elderly benefits	1,664	1,717	11,508	11,906
Unemployment insurance benefits	1,172	1,008	9,644	8,258
Other	123	120	833	833
Total	2,960	2,845	21,986	20,997
Other levels of government				
Established Programs Financing	790	1,043	5,468	5,588
Fiscal transfers	696	786	5,669	5,850
Canada Assistance Plan	894	712	4,840	5,142
Total	2,380	2,541	15,977	16,580
Other				
Agriculture	29	24	264	293
Indians and Inuit	228	201	1,995	2,041
Regional development	26	31	153	177
Science and technology	68	71	364	370
International assistance	261	286	1,076	1,110
Other	448	707	3,248	3,216
Total	1,060	1,321	7,100	7,206
Total transfers	6,400	6,706	45,063	44,784
Payments to Crown corporations	407	340	2,588	2,522
Operating and capital expenditures				
Defence	1,026	870	5,997	5,540
All other departmental expenditures	1,687	1,515	10,175	9,837
Total	2,713	2,385	16,172	15,377
Total program spending	9,520	9,431	63,823	62,683
Public debt charges	3,029	3,445	22,363	23,730
Total budgetary expenditures	12,549	12,876	86,186	86,413

Table 4

Government of Canada
Non-budgetary transactions

	October		April to October	
	1993	1994	1993-94	1994-95
(in millions of dollars)				
Loans, investments, and advances				
Crown corporations	63	33	1,089	384
Other	-33	-23	-139	-244
Total	30	10	950	140
Specified purpose accounts				
Canada Pension Plan Account	254	246	1,170	969
Superannuation accounts	-103	-125	3,579	3,804
Other	-171	191	-1,006	11
Total	-20	312	3,743	4,784
Other transactions	1,035	1,266	-1,490	-4,354
Total non-budgetary transactions	1,045	1,588	3,203	570

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Table 5

Government of Canada Foreign exchange and unmatured debt transactions

	October		April to October	
	1993	1994	1993-94	1994-95
(in millions of dollars)				
Foreign exchange transactions				
Net international reserves	-681	393	-286	-2,148
Unmatured debt transactions payable in foreign currencies	1,181	-1,011	3,293	2,572
Total	500	-618	3,007	424
Unmatured debt transactions				
Marketable bonds	874	-700	12,693	20,114
Canada Savings Bonds	-332	-374	-2,148	-3,495
Treasury bills	3,850	3,350	7,250	2,650
Other	898	-1,205	3,330	-207
Subtotal	5,290	1,071	21,125	19,062
Less:				
Government's holding of unmatured debt	85	44	973	845
Unmatured debt transactions payable in foreign currencies	-1,181	1,011	-3,293	-2,572
Subtotal	-1,096	1,055	-2,320	-1,727
Total unmatured debt transactions payable in Canadian dollars	4,194	2,126	18,805	17,335

Table 6

Government of Canada Cash, unmatured debt and debt balances

	at October 31	
	1993	1994
(in millions of dollars)		
Cash balances at end of period		
In Canadian dollars	2,894	1,215
In foreign currencies	36	7
Total cash balance	2,930	1,222
Unmatured debt balance		
Payable in Canadian dollars –		
Marketable bonds	191,158	220,786
Canada Savings Bonds	32,221	27,837
Treasury bills	169,300	168,650
Other	3,542	3,492
Subtotal	396,221	420,765
Less:		
Government's holdings of unmatured debt	62	131
Total	396,159	420,634
Payable in foreign currencies –		
Marketable bonds	2,858	7,792
Notes and loans	0	0
Canada bills	5,845	5,448
Subtotal	8,703	13,240
Less:		
Government's holdings of unmatured debt	0	0
Total unmatured debt	404,862	433,874



The Fiscal Monitor

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Financial Results for November 1994

The deficit in November 1994 was estimated at 2.8 billion, up \$0.7 billion from November 1993. This increase in the deficit was expected and in part relates to timing considerations.

The year-over-year increase in the deficit was attributable to higher public debt charges, up \$0.4 billion or 13.0 per cent, and increased program spending, up \$0.3 billion or 3.5 per cent. Budgetary revenues were virtually unchanged from year earlier levels.

The increase in public debt charges resulted from higher interest rates and the costs associated with servicing a higher stock of debt.

Most of the increase in program spending was attributable to the timing of federal government employees' pay periods. For the majority of federal government employees, pay periods are once every two weeks. As a result, there are three pay periods within one month twice during the course of the year. In 1994, this occurred in June and November, whereas in 1993, this occurred in June and December.

Higher corporate income tax collections and non-tax receipts offset declines in personal income tax collections, unemployment insurance premiums and indirect tax revenues. The decline in personal income tax collections primarily reflects the timing of tax receipts.

Although Goods and Service Tax (GST) collections were up sharply in November 1994, most of the increase was attributable to the reallocation of revenues between GST and sales and excise taxes by Revenue Canada to correct for misallocations in previous months. These changes put the year-to-date figures in line with changes in the tax bases and rates.

Financial Results for April to November 1994

Over the eight months of the fiscal year (April to November), the deficit was \$5.1 billion lower than in the same period in 1993-94. The improvement in the deficit was due to higher revenues, up \$6.0 billion or 8.4 per cent, and lower program spending, down \$0.8 billion or 1.1 per cent. Public debt charges were up \$1.8 billion or 6.9 per cent.

- About half of the increase in budgetary revenues was attributable to the impact of one-time factors, including the faster processing of personal income tax returns by Revenue Canada in March 1994 – which resulted in lower personal income tax refunds in the first half of 1994-95 – and the ending of transitional costs associated with the restructuring of the child benefit system. Higher corporate income tax collections and increased unemployment premiums accounted for most of the remaining increase in overall revenues.
- The decline in program spending was due to lower expenditures on unemployment insurance benefits and the impact of the February 1994 budget cuts on defence and departmental operating costs.
- The increase in public debt charges reflects the increase in the debt and higher interest rates associated with servicing that debt.

The financial results to date suggest that the final deficit outcome for 1994-95 could be somewhat lower than \$39.7 billion. The final outcome, however, will largely depend upon the impact of interest rate developments and end-of-year adjustments.

The Fiscal Monitor

Table 1

Government of Canada Summary statement of financial transactions¹

	November		April to November	
	1993	1994	1993-94	1994-95
(in millions of dollars)				
Budgetary transactions				
Revenues	10,180	10,226	71,400	77,394
Program spending	-9,227	-9,549	-73,051	-72,231
Operating balance	953	677	-1,651	5,163
Public debt charges	-3,053	-3,450	-25,416	-27,180
Deficit	-2,100	-2,773	-27,067	-22,017
Non-budgetary transactions	-1,265	789	1,938	1,359
Financial requirements (excluding foreign exchange transactions)	-3,365	-1,984	-25,129	-20,658
Foreign exchange transactions	1,295	38	4,302	463
Financial requirements	-2,070	-1,946	-20,827	-20,195
Unmatured debt transactions	1,288	1,983	20,092	19,318

Note: Data compiled by the Receiver General for Canada.

¹ (+) indicates a source of funds, while (-) indicates a requirement for funds.

Table 2

Government of Canada Detailed statement of budgetary transactions – revenues

	November		April to November	
	1993	1994	1993-94	1994-95
(in millions of dollars)				
Personal income tax	4,671	4,521	33,774	36,813
Corporate income tax	800	979	4,567	6,520
Unemployment insurance contributions	1,427	1,406	12,368	13,005
Non-resident tax	95	102	768	849
Total income tax	6,993	7,008	51,477	57,187
Excise taxes and duties				
Goods and Services Tax	1,733	2,264	9,520	10,208
Customs import duties	400	318	2,289	2,334
Sales and excise taxes	716	172	4,790	4,292
Total excise taxes/duties	2,849	2,754	16,599	16,834
Other tax revenue	9	13	184	195
Total tax revenue	9,851	9,775	68,260	74,216
Non-tax revenue	329	451	3,140	3,178
Total budgetary revenues	10,180	10,226	71,400	77,394

Table 3
Government of Canada
Detailed statement of budgetary transactions – expenditures

	November		April to November	
	1993	1994	1993-94	1994-95
(in millions of dollars)				
Transfer payments to:				
Persons				
Elderly benefits	1,673	1,730	13,181	13,637
Unemployment insurance benefits	1,314	1,101	10,958	9,360
Other	118	118	952	951
Total	3,106	2,949	25,091	23,946
Other levels of government				
Established Programs Financing	891	811	6,359	6,399
Fiscal transfers	682	734	6,351	6,584
Canada Assistance Plan	805	780	5,645	5,922
Total	2,378	2,325	18,355	18,905
Other				
Agriculture	146	130	418	422
Indians and Inuit	195	224	2,190	2,265
Regional development	43	44	196	213
Science and technology	39	39	402	409
International assistance	167	136	1,243	1,246
Other	426	537	3,668	3,765
Total	1,014	1,111	8,116	8,319
Total transfers	6,498	6,384	51,563	51,170
Payments to Crown corporations	336	349	2,924	2,872
Operating and capital expenditures				
Defence	857	990	6,854	6,530
All other departmental expenditures	1,536	1,826	11,710	11,659
Total	2,383	2,816	18,564	18,189
Total program spending	9,227	9,549	73,051	72,231
Public debt charges	3,053	3,450	25,416	27,180
Total budgetary expenditures	12,280	12,999	98,467	99,411

Table 4
Government of Canada
Non-budgetary transactions

	November		April to November	
	1993	1994	1993-94	1994-95
(in millions of dollars)				
Loans, investments, and advances				
Crown corporations	-520	144	571	527
Other	33	-14	-108	-257
Total	-487	130	463	270
Specified purpose accounts				
Canada Pension Plan Account	-846	-312	325	657
Superannuation accounts	-43	-66	3,537	3,738
Other	123	-51	-885	-40
Total	-766	-429	2,977	4,355
Other transactions	-12	1,088	-1,502	-3,266
Total non-budgetary transactions	-1,265	789	1,938	1,359

The Fiscal Monitor

Table 5

Government of Canada Foreign exchange and unmatured debt transactions

	November		April to November	
	1993	1994	1993-94	1994-95
(in millions of dollars)				
Foreign exchange transactions				
Net international reserves	1,962	775	1,677	-1,372
Unmatured debt transactions payable in foreign currencies	-667	-737	2,625	1,835
Total	1,295	38	4,302	463
Unmatured debt transactions				
Marketable bonds	1,092	3,301	13,784	23,414
Canada Savings Bonds	934	5,963	-1,214	2,469
Treasury bills	-400	-6,050	6,850	-3,400
Other	400	-738	3,729	-945
Subtotal	2,026	2,476	23,149	21,538
Less:				
Government's holding of unmatured debt	-1,405	-1,230	-432	-385
Unmatured debt transactions payable in foreign currencies	667	737	-2,625	-1,835
Subtotal	-738	-493	-3,057	-2,220
Total unmatured debt transactions payable in Canadian dollars	1,288	1,983	20,092	19,318

Table 6

Government of Canada Cash, unmatured debt and debt balances

	at November 30	
	1993	1994
(in millions of dollars)		
Cash balances at end of period		
In Canadian dollars	2,074	1,188
In foreign currencies	73	72
Total cash balance	2,147	1,260
Unmatured debt balance		
Payable in Canadian dollars –		
Marketable bonds	193,058	224,086
Canada Savings Bonds	33,154	33,800
Treasury bills	168,900	162,600
Other	3,800	3,491
Subtotal	398,912	423,977
Less:		
Government's holdings of unmatured debt	1,467	1,351
Total	397,445	422,626
Payable in foreign currencies –		
Marketable bonds	2,049	7,792
Notes and loans	.0	0
Canada bills	5,986	4,711
Subtotal	8,035	12,503
Less:		
Government's holdings of unmatured debt	0	0
Total unmatured debt	405,480	435,129



The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for December 1994

Deficit down \$1.0 billion in December 1994

The deficit in December 1994 was estimated at \$1.1 billion, down \$1.0 billion from December 1993.

- The year-over-year improvement in the deficit was attributable to higher personal and corporate income tax collections, increased unemployment insurance premiums and lower program spending. The increase in personal and corporate income tax collections reflected improved employment and profitability, while the higher unemployment insurance premiums were due to prior-year adjustments which dampened the December 1993 results. The decline in program spending primarily related to the timing factors relating to federal government employees' pay periods. In December 1994, there were two pay periods, while in December 1993, there were three pay periods.

Deficit for April to December 1994 down \$6.0 billion

Over the first nine months of the fiscal year, the deficit was \$6.0 billion lower than in the same period in 1993-94.

- Budgetary revenues were up \$6.7 billion, on a year-over-year basis. About \$3 billion of this increase was attributable to the impact of one-time factors, including the faster processing of personal income tax returns by Revenue Canada in March 1994 – which resulted in lower personal income tax refunds in the first half of 1994-95 – and the ending of transitional costs associated with the restructuring of the child benefit system. Higher corporate income tax collections accounted for a large portion of the remaining increase in overall revenues.
- Program spending was \$1.3 billion lower, due to lower expenditures on unemployment insurance benefits and the impact of the February 1994 budget cuts on defence and departmental operating costs.
- Public debt charges were up by \$2.0 billion, reflecting the increase in the debt and higher interest rates associated with servicing that debt.

Deficit outlook for 1994-95 lower than forecast

In the October 18, 1994 economic and fiscal update document entitled "Creating a Healthy Fiscal Climate", the deficit for the year as a whole was estimated at \$39.7 billion, down \$2.3 billion from the final outcome for 1993-94.

The improvement of \$6.0 billion in the deficit results to date suggests that the final deficit outcome for 1994-95 should be lower than \$39.7 billion. The final deficit outcome for 1994-95 will be dependent upon interest rates developments and end-of-year accounting adjustments. A revised estimate will be provided in the upcoming budget.



The Fiscal Monitor

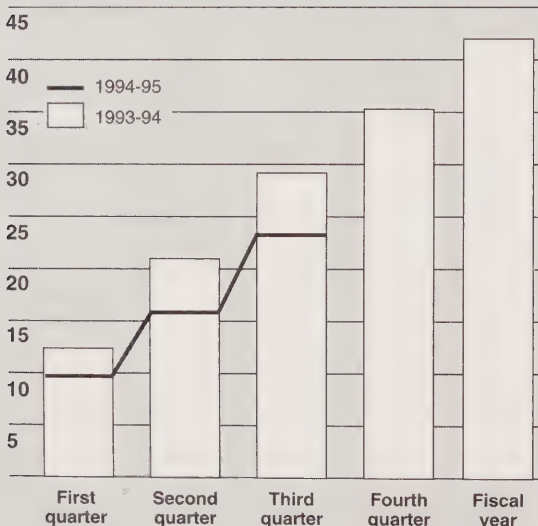
Table 1
Summary statement of transactions

	December		April to December	
	1993	1994	1993-94	1994-95
(in millions of dollars)				
Budgetary transactions				
Revenues	11,636	12,386	83,037	89,779
Program spending	-10,228	-9,757	-83,279	-81,988
Operating surplus	1,408	2,629	-242	7,791
Public debt charges	-3,510	-3,741	-28,926	-30,921
Deficit	-2,102	-1,112	-29,168	-23,130
Non-budgetary transactions	-242	-288	1,695	1,072
Financial requirements (excluding foreign exchange transactions)	-2,344	-1,400	-27,473	-22,058
Foreign exchange transactions: net source (+)/requirements (-)	1,425	4,473	5,727	4,936
Total financial requirements	-919	3,073	-21,746	-17,122
Unmatured debt transactions	1,760	-1,101	21,852	18,217

The federal deficit 1993-94 and 1994-95

Year to date

billions of dollars



Budgetary revenues up

On a year-over-year basis, budgetary revenues over the April 1994 to December 1994 period increased by \$6.7 billion (8.1 per cent). Higher personal income tax collections accounted for \$3.3 billion of this increase. However, this increase was due largely to lower personal income tax refunds for the 1993 taxation year, which were down \$2.5 billion. This resulted from:

- the faster processing of tax returns in March 1994, thereby moving returns which would have been processed in the first half of the current fiscal year into the previous fiscal year; and,
- the restructuring of the child benefit system, whereby benefits are now paid on a monthly basis through the Child Tax Benefit; in previous years, part of the benefit was paid at the time of tax filing and included in refunds paid.

Excluding the impact of these one-time factors, personal income tax collections to date are up only marginally from last year.

Table 2
Budgetary revenues

	December		April to December		
	1993	1994	1993-94	1994-95	Per cent change
	(in millions of dollars)				(%)
Income taxes					
Personal income tax	5,927	6,147	39,700	42,960	8.2
Corporate income tax	897	1,075	5,464	7,595	39.0
Unemployment insurance contributions	1,388	1,651	13,756	14,656	6.5
Non-resident tax	105	189	873	1,038	18.9
Total income tax	8,317	9,062	59,793	66,249	10.8
Excise taxes and duties					
Goods and Services Tax	1,636	1,675	11,156	11,883	6.5
Customs import duties	312	381	2,602	2,714	4.3
Sales and excise taxes	566	567	5,355	4,860	-9.2
Total excise taxes and duties	2,514	2,623	19,113	19,457	1.8
Other					
Other tax revenue	22	20	206	215	4.4
Non-tax revenue	783	681	3,925	3,858	-1.7
Total other revenues	805	701	4,131	4,073	-1.4
Total budgetary revenues	11,636	12,386	83,037	89,779	8.1

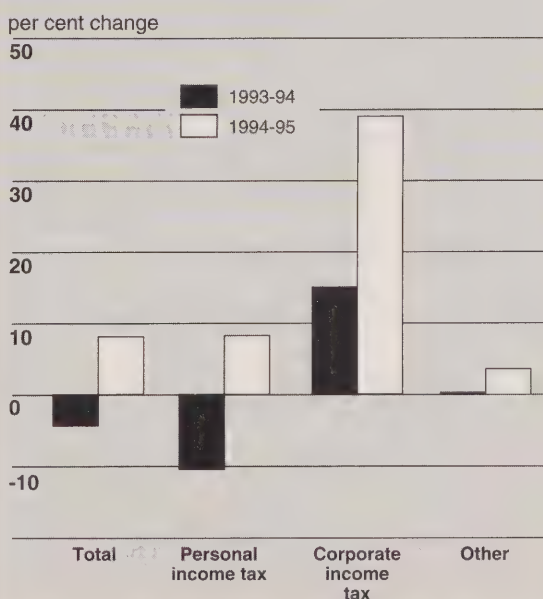
Corporate income tax collections were up \$2.1 billion in the first nine months of 1994-95. This reflected both increased corporate profits and substantially lower refunds.

Unemployment insurance premium contributions were up \$0.9 billion, due to somewhat higher premium rates in 1994 than in 1993, an increase in maximum insurable earnings and higher employment.

Total excise taxes and duties in the first nine months of 1994-95 were up \$0.3 billion or 1.8 per cent from year earlier collections. Goods and Services Tax (GST) collections were up 6.5 per cent on a year-over-year basis. Customs import duties were up 4.3 per cent, reflecting the strong growth in the value of imports. Sales and excise taxes were down 9.2 per cent, primarily due to the impact of the reductions in the tobacco excise tax announced on February 8, 1994.

Budgetary revenues 1993-94 and 1994-95

April to December
Year-over-year growth



The Fiscal Monitor

Table 3

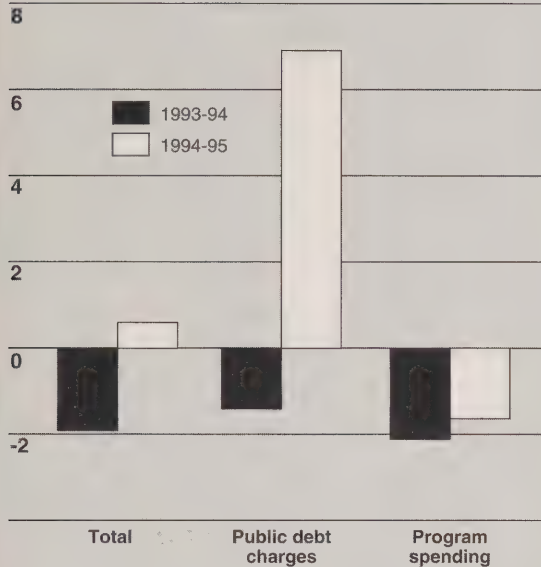
Budgetary expenditures

Budgetary expenditures	December		April to December		Per cent change (%)
	1993	1994	1993-94	1994-95	
	(in millions of dollars)				
Transfers payments to:					
Persons					
Elderly benefits	1,671	1,714	14,852	15,351	3.4
Unemployment insurance benefits	1,492	1,119	12,450	10,478	-15.8
Veterans' pensions/allowances	120	123	1,071	1,074	0.3
Total	3,283	2,956	28,374	26,902	-5.2
Other levels of government					
Established Programs Financing	760	811	7,118	7,210	1.3
Fiscal transfers	878	1,088	7,230	7,672	6.1
Canada Assistance Plan	490	380	6,135	6,302	2.7
Total	2,128	2,280	20,483	21,184	3.4
Other					
Agricultural subsidies	305	127	723	549	-24.0
Indian and Inuit programs	227	242	2,417	2,506	3.7
Regional development	37	46	232	259	11.4
Science and Technology	93	89	495	498	0.6
International assistance	135	122	1,377	1,368	-0.7
Other	741	1,026	4,410	4,790	8.6
Total	1,537	1,652	9,654	9,970	3.3
Total transfers	6,947	6,888	58,511	58,057	-0.8
Payments to Crown corporations					
Canadian Broadcasting Corporation	78	96	866	888	2.5
Canada Mortgage and Housing Corporation	232	228	1,370	1,335	-2.6
Other	170	304	1,168	1,276	9.2
Total	480	628	3,404	3,499	2.8
Operating and capital expenditures					
Defence	935	810	7,789	7,341	-5.8
All other departmental expenditures	1,866	1,431	13,575	13,091	-3.6
Total	2,801	2,241	21,364	20,432	-4.4
Total program expenditures	10,228	9,757	83,279	81,988	-1.6
Public debt charges	3,510	3,741	28,926	30,921	6.9
Total budgetary expenditures	13,738	13,498	112,205	112,909	0.6

Budgetary expenditures 1993-94 and 1994-95

April to December
Year-over-year growth

per cent change



Budgetary expenditures up slightly

In the first nine months, total budgetary expenditures were up 0.6 per cent, on a year-over-year basis, as higher public debt charges offset the decline in program spending.

Public debt charges up

Public debt charges increased by 6.9 per cent, reflecting the impact of higher interest rates and increases in the stock of debt. Public debt charges are expected to increase more rapidly over the remaining months of 1994-95, given the rollover of debt at higher interest rates.

Program spending lower

Program spending declined by \$1.3 billion (1.6 per cent) in the April 1994 to December 1994 period, compared to the same period in 1993-94. This decline reflects a number of factors:

- lower unemployment insurance benefits, down 15.8 per cent, reflecting the impact of strong growth in employment opportunities and the

effect of the December 1992 Economic and Fiscal Statement and February 1994 budget measures; and,

- lower spending on operating and capital by defence and other government departments, reflecting the impact of restraint measures announced in the last budget.

In contrast, increases were recorded in elderly benefits and in transfers to provinces. Payments to Crown corporations were also up.

Financial requirements lower

Financial requirements measure the amount by which cash going out from the government exceeds cash coming in. Financial requirements are lower than the deficit, as they also include the net source of funds from non-budgetary transactions. The latter includes transactions in loans, investments and advances, government employees' pension accounts, other specified accounts, and other financial assets and liabilities.

Non-budgetary transactions in the April 1994 to December 1994 period resulted in a net source of funds amounting to \$1.1 billion, compared to a net source of \$1.7 billion recorded in the corresponding period of 1993-94. The lower source of funds primarily relates to an increase in the selling of bonds at discount. Such discounts are amortized over the life of the bond as part of public debt charges, but reported on a cash basis as part of non-budgetary transactions.

As a result, financial requirements, excluding foreign exchange transactions, amounted to \$22.1 billion in the first nine months of 1994-95, down \$5.4 billion from that recorded in the same period in 1993-94.

The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. It fulfils this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure on the currency.

In the first nine months of 1994-95, foreign exchange transactions provided a net source of funds amounting to \$4.9 billion, down \$0.8 billion from the first nine months of 1993-94.

The Fiscal Monitor

Table 4

The deficit and financial requirements

	December		April to December	
	1993	1994	1993-94	1994-95
	(in millions of dollars)			
Deficit	-2,102	-1,112	-29,168	-23,130
Loans, investments, and advances				
Crown corporations	-17	284	553	812
Other	4	-10	-104	-268
Total	-13	274	449	544
Specified purpose accounts				
Canada Pension Plan Account	-303	-372	22	286
Superannuation accounts	2,208	2,311	5,745	6,049
Other	751	1,038	-134	998
Total	2,656	2,977	5,633	7,333
Other transactions	-2,885	-3,539	-4,387	-6,805
Total non-budgetary transactions	-242	-288	1,695	1,072
Financial requirements (excluding foreign exchange transactions)	-2,344	-1,400	-27,473	-22,058

Table 5

Financial requirements, foreign exchange and unmatured debt transactions

	December		April to December	
	1993	1994	1993-94	1994-95
	(in millions of dollars)			
Financial requirements (excluding foreign exchange transactions)	-2,344	-1,400	-27,473	-22,058
Foreign exchange transactions				
Net international reserves	824	3,614	2,500	2,242
Unmatured debt transactions payable in foreign currencies	601	859	3,227	2,694
Total	1,425	4,473	5,727	4,936
Total financial requirements	-919	3,073	-21,746	-17,122
Unmatured debt transactions				
Marketable bonds	5,269	2,217	19,054	25,630
Canada Savings Bonds	-532	-289	-1,746	2,180
Treasury bills	-3,000	-3,050	3,850	-6,450
Other	559	858	4,288	-86
Subtotal	2,296	-264	25,446	21,274
Less:				
Government's holding of unmatured debt	65	22	-367	-363
Unmatured debt transactions payable in foreign currencies	-601	-859	-3,227	-2,694
Subtotal	-536	-837	-3,594	-3,057
Total unmatured debt transactions payable in Canadian dollars	1,760	-1,101	21,852	18,217
Change in cash balance	841	1,972	106	1,095

Table 6
Cash, unmatured debt and debt balances

	December 31	
	1993	1994
	(in millions of dollars)	
Cash balances at end of period		
In Canadian dollars	2,923	3,145
In foreign currencies	64	87
Total cash balance	2,987	3,232
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	198,327	226,302
Canada Savings Bonds	32,623	33,511
Treasury bills	165,900	159,550
Other	3,758	3,491
Subtotal	400,608	422,854
Less:		
Government's holdings of unmatured debt	1,402	1,328
Total	399,206	421,526
Payable in foreign currencies		
Marketable bonds	2,049	7,792
Notes and loans	0	0
Canada bills	6,590	5,570
Subtotal	8,639	13,362
Less:		
Government's holdings of unmatured debt	0	0
Total unmatured debt	407,845	434,888

As a result, total financial requirements, including foreign exchange transactions, were \$17.1 billion, down \$4.6 from the net requirement in the same period last year.

To finance these requirements, the government borrows from the private sector and/or draws down its cash reserves. Total borrowing from the private sector (unmatured debt transactions) amounted to \$18.2 billion in the first nine months of 1994-95, down \$3.6 billion from that borrowed on financial markets during the same period last year. Cash balances, as of December 31, 1994, stood at \$3.2 billion, up \$0.2 billion from December 31, 1993.

The Debt Servicing and Reduction Account

In June 1992, legislation to establish the Debt Servicing and Reduction Account received Royal Assent. As a result, effective April 1, 1991, all Goods and Services Tax revenue net of the applicable input tax credits, rebates, and the low-income credit, along with the net proceeds from the sale of Crown corporations and gifts to the Crown identified for debt reduction must, by law, go directly to the Debt Servicing and Reduction Account. The funds in this Account can only be used to pay the cost of servicing the public debt and ultimately to reduce the debt. The Account is audited on an annual basis by the Auditor General of Canada.

The Fiscal Monitor

Table 7

Debt Servicing and Reduction Account

	1991-92	1992-93	1993-94	April to December
	(in millions of dollars)			
Gross GST collected	29,565	30,516	32,652	25,953
<i>Less:</i>				
Refunds and rebates	11,330	12,138	13,338	11,309
GST paid by federal departments	804	1,006	933	649
Quarterly low-income tax credit	2,262	2,503	2,685	2,112
Net GST	15,168	14,868	15,696	11,883
GST penalties and interest received	19	71	90	
Gains from wind-up of interest in Crown corporations/disposal of shares in Crown corporations	2	110		
Gifts to the Crown	0.4	0.1	0.1	—
Proceeds to the Crown	15,190	15,050	15,786	11,883

Figures for 1991-92, 1992-93, and 1993-94 are from the Public Accounts of Canada.

For further information contact: P. DeVries at 996-7397.

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February 1995



Department of Finance
Canada

Ministère des Finances
Canada

The Fiscal Monitor

A Publication of the Department of Finance

Financial Results for January 1995

The deficit in January 1995 was estimated at \$3.2 billion, up \$0.7 billion from January 1994. This increase in the deficit was expected and primarily relates to the timing of payments and an increase in public debt charges.

- Program spending was up \$0.4 billion in January 1995 compared to the same period last year, with all major components posting increases with the exception of major transfers to persons and defence. The increase in program spending largely reflects the timing of payments and was anticipated.
- The increase in public debt charges resulted from higher interest rates and the costs associated with servicing a higher stock of debt.
- Budgetary revenues were up only 0.3 per cent on a year-over-year basis. This low rate of change also relates primarily to timing adjustments. Unemployment insurance premiums were down 21.5 per cent, as adjustments related in overpayments in previous years dampened net collections in January 1995. In addition, premium rates were lowered in January 1995. Among the other major components, personal and corporate income tax collections and net Goods and Services Tax were higher.



Financial Results for April 1994 to January 1995

Over the ten months of the fiscal year (April 1994 to January 1995), the deficit was \$5.4 billion lower than in the same period in 1993-94. The improvement in the deficit was due to higher revenues, up \$6.8 billion or 7.3 per cent, and lower program spending, down \$0.9 billion or 1.0 per cent. Public debt charges were up \$2.3 billion or 7.2 per cent.

- Just under half of the increase in budgetary revenues was attributable to the impact of one-time factors, including the faster processing of personal income tax returns by Revenue Canada in March 1994 – which resulted in lower personal income tax refunds in the first half of 1994-95 – and the ending of transitional costs associated with the restructuring of the child benefit system. Higher corporate income tax collections and increased unemployment insurance premiums accounted for most of the remaining increase in overall revenues.
- The decline in program spending was due to lower expenditures on unemployment insurance benefits and the impact of the February 1994 budget cuts on defence and departmental operating costs.
- The increase in public debt charges reflected the increase in the debt and higher interest rates associated with servicing that debt.

The February 1995 budget estimated the underlying deficit outcome for 1994-95 at \$35.3 billion. The results to date are consistent with the revised estimate. However, the final deficit outcome for the entire fiscal year will be influenced by the results for February and March as well as the supplementary period adjustments. Final results are anticipated in August 1995.



The Fiscal Monitor

Table 1

Government of Canada Summary statement of financial transactions¹

	January		April to January	
	1994	1995	1993-94	1994-95
(in millions of dollars)				
Budgetary transactions				
Revenues	9,636	9,668	92,673	99,447
Program spending	-8,961	-9,336	-92,239	-91,324
Operating balance	675	332	434	8,123
Public debt charges	-3,228	-3,558	-32,154	-34,479
Deficit	-2,553	-3,226	-31,720	-26,356
Non-budgetary transactions	2,043	2,878	3,740	3,951
Financial requirements (excluding foreign exchange transactions)	-510	-348	-27,980	-22,405
Foreign exchange transactions	-5,049	218	678	5,154
Financial requirements	-5,559	-130	-27,302	-17,251
Unmatured debt transactions	3,172	-1,540	25,024	16,677

Note: Data compiled by the Receiver General of Canada.

¹ (+) indicates a source of funds, while (-) indicates a requirement for funds.

Table 2

Government of Canada Detailed statement of budgetary transactions – revenues

	January		April to January	
	1994	1995	1993-94	1994-95
(in millions of dollars)				
Personal income tax	5,289	5,537	44,989	48,497
Corporate income tax	840	901	6,304	8,496
Unemployment insurance contributions	1,449	1,138	15,205	15,795
Non-resident tax	181	173	1,054	1,211
Total income tax	7,759	7,749	67,552	73,999
Excise taxes and duties				
Goods and Services Tax	633	824	11,789	12,707
Customs import duties	253	210	2,855	2,924
Sales and excise taxes	623	589	5,979	5,449
Total excise taxes/duties	1,509	1,623	20,623	21,080
Other tax revenue	18	18	224	233
Total tax revenue	9,286	9,390	88,399	95,312
Non-tax revenue	350	278	4,274	4,135
Total budgetary revenues	9,636	9,668	92,673	99,447

Table 3

Government of Canada
Detailed statement of budgetary transactions – expenditures

	January		April to January	
	1994	1995	1993-94	1994-95
(in millions of dollars)				
Transfer payments to:				
Persons				
Elderly benefits	1,678	1,716	16,530	17,066
Unemployment insurance benefits	1,644	1,554	14,094	12,032
Other	119	121	1,190	1,195
Total	3,416	3,391	31,815	30,293
Other levels of government				
Established Programs Financing	760	811	7,878	8,021
Fiscal transfers	645	622	7,875	8,295
Canada Assistance Plan	302	309	6,437	6,611
Total	1,707	1,742	22,190	22,926
Other				
Agriculture	97	110	820	660
Indians and Inuit	153	152	2,570	2,658
Regional development	42	46	275	306
Science and technology	27	30	521	528
International assistance	175	206	1,552	1,574
Other	580	802	4,918	5,590
Total	1,074	1,347	10,729	11,317
Total transfers	6,222	6,480	64,734	64,536
Payments to Crown corporations	474	543	3,878	4,042
Operating and capital expenditures				
Defence	823	817	8,612	8,158
All other departmental expenditures	1,442	1,496	15,015	14,588
Total	2,265	2,313	23,627	22,748
Total program spending	8,961	9,336	92,239	91,324
Public debt charges	3,228	3,558	32,154	34,479
Total budgetary expenditures	12,189	12,894	124,393	125,803

Table 4

Government of Canada
Non-budgetary transactions

	January		April to January	
	1994	1995	1993-94	1994-95
(in millions of dollars)				
Loans, investments, and advances				
Crown corporations	-34	553	520	1,365
Other	52	-28	-52	-295
Total	18	525	468	1,070
Specified purpose accounts				
Canada Pension Plan Account	-616	-302	-594	-17
Superannuation accounts	-134	-117	5,611	5,933
Other	449	719	315	1,717
Total	-301	300	5,332	7,633
Other transactions	2,326	2,053	-2,060	-4,752
Total non-budgetary transactions	2,043	2,878	3,740	3,951

The Fiscal Monitor

Table 5

Government of Canada Foreign exchange and unmatured debt transactions

	January		April to January	
	1994	1995	1993-94	1994-95
(in millions of dollars)				
Foreign exchange transactions				
Net international reserves	-4,648	-3,004	-2,168	-762
Unmatured debt transactions payable in foreign currencies	-401	3,222	2,826	5,916
Total	-5,049	218	678	5,154
Unmatured debt transactions				
Marketable bonds	1,999		21,054	25,630
Canada Savings Bonds	-289	-341	-2,036	1,839
Treasury bills	1,600	-1,300	5,450	-7,750
Other	-660	3,222	3,628	3,136
Subtotal	2,650	1,581	28,096	22,855
<i>Less:</i>				
Government's holding of unmatured debt	121	101	-246	-262
Unmatured debt transactions payable in foreign currencies	401	-3,222	-2,826	-5,916
Subtotal	528	-3,121	-3,072	-6,178
Total unmatured debt transactions payable in Canadian dollars	3,172	-1,540	25,024	16,677

Table 6

Government of Canada Cash, unmatured debt and debt balances

	at January 31	
	1994	1995
(in millions of dollars)		
Cash balances at end of period		
In Canadian dollars	516	1,509
In foreign currencies	86	54
Total cash balance	602	1,563
Unmatured debt balance		
Payable in Canadian dollars –		
Marketable bonds	200,327	226,302
Canada Savings Bonds	32,333	33,170
Treasury bills	167,500	158,250
Other	3,499	3,491
Subtotal	403,659	421,213
<i>Less:</i>		
Government's holdings of unmatured debt	1,281	1,228
Total	402,378	419,985
Payable in foreign currencies –		
Marketable bonds	2,049	7,792
Notes and loans	0	0
Canada bills	6,186	8,792
Subtotal	8,235	16,584
<i>Less:</i>		
Government's holdings of unmatured debt	0	0
Total unmatured debt	410,613	436,569



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Financial Results for February 1995

The deficit in February 1995 was estimated at \$2.4 billion, down \$0.1 billion from February 1994, as higher budgetary revenues and lower program spending more than offset much higher public debt charges.

- Budgetary revenues were up 8.6 per cent on a year-over-year basis, largely attributable to higher personal and corporate income tax collections and Goods and Services Tax revenues. The higher collections reflect continued improvement in economic output, employment and profitability.
- Program spending declined by 1.1 per cent in February 1995 compared to the same period last year. Part of the decline reflects the timing of payments. In addition, unemployment insurance benefits were lower, reflecting the impact of improved labour market conditions and reform measures introduced in the 1994 budget. Departmental operating expenses were also lower due to the constraint measures imposed in the 1994 budget.
- The increase in public debt charges resulted from higher interest rates and the impact of net gains realized in February 1994 from the reopening of certain marketable bonds.

to higher revenues, up \$7.6 billion or 7.4 per cent, and lower program spending, down \$1.0 billion or 1.0 per cent. Public debt charges were up \$3.1 billion or 9.0 per cent.

- About \$3 billion of the increase in budgetary revenues was attributable to the impact of one-time factors, including the faster processing of personal income tax returns by Revenue Canada in March 1994 – which resulted in lower personal income tax refunds in the first half of 1994-95 – and the ending of transitional costs associated with the restructuring of the child benefit system. Higher corporate income tax collections and Goods and Services Tax revenues, coupled with increased unemployment insurance premiums accounted for most of the remaining increase in overall revenues. In contrast, sales and excise duties and taxes were lower, due to the February 1994 reduction in tobacco excise taxes.
- The decline in program spending was due to lower expenditures on unemployment insurance benefits and the impact of the February 1994 budget cuts on defence and departmental operating costs.
- The increase in public debt charges reflected the increase in the debt and higher interest rates associated with servicing that debt.

Financial Results for April 1994 to February 1995

Over the eleven months of the fiscal year (April 1994 to February 1995), the deficit was \$5.4 billion lower than in the same period in 1993-94. The improvement in the deficit was due

The February 1995 budget estimated the underlying deficit outcome for 1994-95 at \$35.3 billion. The results to date are consistent with this revised estimate. However, the final deficit outcome for the entire fiscal year will be influenced by the results for March and the supplementary period adjustments. Final results are anticipated in August 1995.



The Fiscal Monitor

Table 1

Government of Canada Summary statement of financial transactions¹

	February		April to February	
	1994	1995	1993-94	1994-95
(in millions of dollars)				
Budgetary transactions				
Revenues	9,182	9,974	101,855	109,421
Program spending	-8,849	-8,753	-101,088	-100,078
Operating balance	333	1,271	767	9,343
Public debt charges	-2,748	-3,573	-34,902	-38,051
Deficit	-2,415	-2,352	-34,135	-28,708
Non-budgetary transactions	1,304	1,050	5,044	5,000
Financial requirements (excluding foreign exchange transactions)	-1,111	-1,302	-29,091	-23,708
Foreign exchange transactions	1,611	-1,762	2,289	3,392
Financial requirements	500	-3,064	-26,802	-20,316
Unmatured debt transactions	580	3,743	25,604	20,420

Note: Data compiled by the Receiver General of Canada.

¹ (+) indicates a source of funds, while (-) indicates a requirement for funds.

Table 2

Government of Canada Detailed statement of budgetary transactions – Revenues

	February		April to February	
	1994	1995	1993-94	1994-95
(in millions of dollars)				
Personal income tax	3,767	4,082	48,756	52,579
Corporate income tax	1,053	1,253	7,357	9,749
Unemployment insurance contributions	1,555	1,566	16,760	17,361
Non-resident tax	127	147	1,181	1,358
Total income tax	6,502	7,048	74,054	81,047
Excise taxes and duties				
Goods and Services Tax	1,668	1,917	13,457	14,624
Customs import duties	319	231	3,174	3,155
Sales and excise taxes	559	541	6,538	5,989
Total excise taxes/duties	2,546	2,689	23,169	23,768
Other tax revenue	13	14	237	247
Total tax revenue	9,061	9,751	97,460	105,062
Non-tax revenue	121	223	4,395	4,359
Total budgetary revenues	9,182	9,974	101,855	109,421

Table 3

Government of Canada

Detailed statement of budgetary transactions – Expenditures

	February		April to February	
	1994	1995	1993-94	1994-95
(in millions of dollars)				
Transfer payments to:				
Persons				
Elderly benefits	1,682	1,717	18,212	18,783
Unemployment insurance benefits	1,595	1,351	15,690	13,383
Other	120	120	1,310	1,314
Total	3,397	3,187	35,212	33,480
Other levels of government				
Established Programs Financing	760	811	8,638	8,831
Fiscal transfers	642	312	8,517	8,607
Canada Assistance Plan	327	314	6,764	6,925
Total	1,729	1,437	23,919	24,363
Other				
Agriculture	86	77	905	737
Indians and Inuit	141	248	2,711	2,906
Regional development	36	45	311	365
Science and technology	78	79	599	607
International assistance	163	168	1,716	1,742
Other	503	808	5,495	6,385
Total	1,006	1,426	11,737	12,742
Total transfers	6,132	6,050	70,867	70,586
Payments to Crown corporations	295	329	4,173	4,371
Operating and capital expenditures				
Defence	824	845	9,436	9,002
All other departmental expenditures	1,598	1,529	16,612	16,119
Total	2,422	2,374	26,048	25,121
Total program spending	8,849	8,753	101,088	100,078
Public debt charges	2,748	3,573	34,902	38,051
Total budgetary expenditures	11,597	12,326	135,990	138,129

Table 4

Government of Canada

Non-budgetary transactions

	February		April to February	
	1994	1995	1993-94	1994-95
(in millions of dollars)				
Loans, investments, and advances				
Crown corporations	12	-53	532	1,312
Other	-54	66	-106	-229
Total	-42	13	426	1,083
Specified purpose accounts				
Canada Pension Plan Account	119	284	-475	267
Superannuation accounts	-170	-184	5,440	5,749
Other	-521	-671	-205	1,046
Total	-572	-571	4,706	7,062
Other transactions	1,918	1,608	-142	-3,145
Total non-budgetary transactions	1,304	1,050	5,044	5,000

The Fiscal Monitor

Table 5

Government of Canada Foreign exchange and unmatured debt transactions

	February		April to February	
	1994	1995	1993-94	1994-95
(in millions of dollars)				
Foreign exchange transactions				
Net international reserves	3,013	-1,496	865	-2,258
Unmatured debt transactions payable in foreign currencies	-1,402	-266	1,424	5,650
Total	1,611	-1,762	2,289	3,392
Unmatured debt transactions				
Marketable bonds	1,522	2,163	22,576	27,793
Canada Savings Bonds	-574	-987	-2,610	852
Treasury bills	-500	2,450	4,950	-5,300
Other	-1,402	-267	2,226	2,869
Subtotal	-954	3,359	27,142	26,214
Less:				
Government's holding of unmatured debt	132	118	-114	-144
Unmatured debt transactions payable in foreign currencies	1,402	-266	-1,424	-5,650
Subtotal	1,534	384	-1,538	-5,794
Total unmatured debt transactions payable in Canadian dollars	580	3,743	25,604	20,420

Table 6

Government of Canada Cash, unmatured debt and debt balances

	at February 28	
	1994	1995
(in millions of dollars)		
Cash balances at end of period		
In Canadian dollars	1,468	2,016
In foreign currencies	215	226
Total cash balance	1,683	2,242
Unmatured debt balance		
Payable in Canadian dollars –		
Marketable bonds	201,850	228,465
Canada Savings Bonds	31,759	32,183
Treasury bills	167,000	160,700
Other	3,498	3,490
Subtotal	404,107	424,838
Less:		
Government's holdings of unmatured debt	1,172	1,109
Total	402,935	423,729
Payable in foreign currencies –		
Marketable bonds	2,049	7,792
Notes and loans	0	0
Canada bills	4,784	8,526
Subtotal	6,833	16,318
Less:		
Government's holdings of unmatured debt	0	0
Total unmatured debt	409,768	440,047



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Highlights of financial results for March 1995

Deficit up \$1.2 billion in March 1995

The deficit in March 1995 was estimated at \$3.2 billion, up \$1.2 billion from March 1994.

- The increase in the deficit was attributable to lower non-tax revenues and higher public debt charges.
- Largely because of the drop in non-tax revenues – more specifically Exchange Fund earnings, which was expected and included in the February 1995 budget deficit estimate for 1994-95 – budgetary revenues were down 4.2 per cent.
- Program spending was 1.4 per cent lower in March 1995 than in March 1994, while public debt charges were up 26.6 per cent.
- Excluding Exchange Fund earnings, the deficit was virtually unchanged on a year-over-year basis.

Deficit for April 1994 to March 1995 down \$4.2 billion

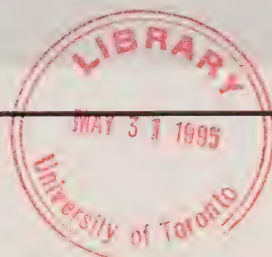
Over the twelve-month period, the deficit stood at \$31.9 billion, \$4.2 billion lower than in the same period in 1993-94.

- Budgetary revenues were up \$7.1 billion, on a year-over-year basis. About \$3 billion of this increase was attributable to the impact of one-time factors, affecting personal income tax revenues. Higher corporate income tax collections accounted for a large portion of the remaining increase in overall revenues.
- Program spending was \$1.2 billion lower, primarily due to lower expenditures on unemployment insurance benefits and the impact of the February 1994 budget cuts on defence and departmental operating costs.
- Public debt charges were up by \$4.0 billion, reflecting the increase in the debt and higher interest rates associated with servicing that debt.

Deficit outlook for 1994-95 remains unchanged

These are not the final results for fiscal year 1994-95. Still to come are the end-of-year accounting adjustments, including the special restructuring costs identified in the February 1995 budget.

- Consistent with government accounting principles, these 'end-of-year accounting' adjustments reflect the recording of the costs of goods and services provided to the government prior to the end of March, as well as liabilities incurred during 1994-95 for which no payment has yet been made. Adjustments are also made to budgetary revenues, primarily to reflect cash-in-transit at year end.
- Based on the results to date and the expected end-of-year accounting adjustments, the 'underlying' deficit for 1994-95 is still estimated at \$35.3 billion. Including the restructuring costs, the final deficit outcome is still estimated at \$37.9 billion. Final audited deficit results will be available in the late summer.



The Fiscal Monitor

Table 1

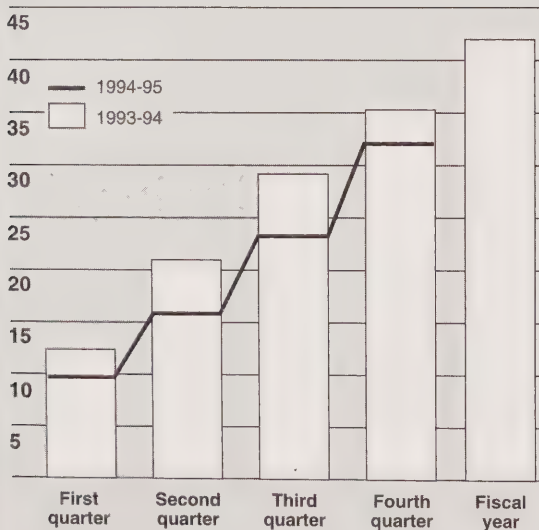
Summary statement of transactions

	March		April to March	
	1994	1995	1993-94	1994-95
(in millions of dollars)				
Budgetary transactions				
Revenues	12,038	11,536	113,893	120,956
Program spending	-11,023	-10,865	-112,111	-110,943
Operating surplus	1,015	671	1,782	10,013
Public debt charges	-3,019	-3,874	-37,921	-41,925
Deficit	-2,004	-3,203	-36,139	-31,912
Non-budgetary transactions	1,345	1,289	6,389	6,290
Financial requirements (excluding foreign exchange transactions)	-659	-1,914	-29,750	-25,622
Foreign exchange transactions: net source (+) / requirement (-)	826	1,443	3,115	4,835
Total financial requirements	167	-471	-26,635	-20,787
Unmatured debt transactions	353	333	25,957	20,753

The federal deficit 1993-94 and 1994-95

Year to date

billions of dollars



Financial requirements lower in 1994-95

Financial requirements are unaffected by the end-of-year accounting adjustments. Preliminary financial requirements, excluding foreign exchange transactions, amounted to \$25.6 billion for 1994-95, \$4.1 billion lower than the 1993-94 requirements. The 1994-95 requirements are \$0.4 billion below the February 1995 budget estimate.

Budgetary revenues up

On a year-over-year basis, budgetary revenues over the April 1994 to March 1995 period increased by \$7.1 billion (6.2 per cent). Higher personal income tax collections accounted for \$4.2 billion of this increase. However, about \$3.0 billion of this increase was due to lower personal income tax refunds for the 1993 taxation year.

Table 2

Budgetary revenues

	March		April to March		
	1994	1995	1993-94	1994-95	Per cent change
	(in millions of dollars)				(%)
Income taxes					
Personal income tax	2,710	3,052	51,466	55,631	8.1
Corporate income tax	1,973	2,491	9,331	12,240	31.2
Unemployment insurance contributions	1,562	1,578	18,322	18,938	3.4
Non-resident tax	81	73	1,262	1,430	13.3
Total income tax	6,326	7,194	80,381	88,239	9.8
Excise taxes and duties					
Goods and Services Tax	1,352	955	14,809	15,579	5.2
Customs import duties	298	330	3,472	3,485	0.4
Sales and excise taxes	566	505	7,103	6,496	-8.5
Total excise taxes and duties	2,216	1,790	25,384	25,560	0.7
Other					
Other tax revenue	55	40	292	287	-1.7
Non-tax revenue	3,441	2,512	7,836	6,870	-12.3
Other revenues	3,496	2,552	8,128	7,157	-11.9
Total budgetary revenues	12,038	11,536	113,893	120,956	6.2

This resulted from:

- the faster processing of tax returns in March 1994, thereby moving returns which would have been processed in the first half of the current fiscal year into the previous fiscal year; and
- the restructuring of the child benefit system, whereby benefits are now paid on a monthly basis through the Child Tax Benefit; in previous years, part of benefit was paid at the time of tax filing and included in refunds paid.

Corporate income tax collections were up \$2.9 billion in the April 1994 to March 1995 period. This reflected both increased corporate profits and substantially lower refunds.

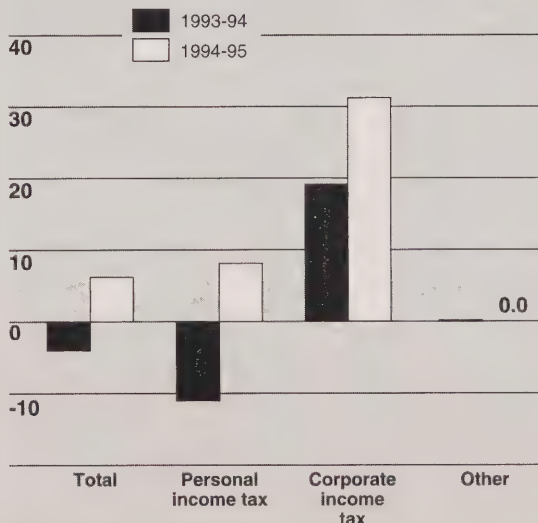
Unemployment insurance premium contributions were up \$0.6 billion, due to somewhat higher premium rates in 1994 than in 1993, an increase in maximum insurable earnings and higher employment.

Budgetary revenues 1993-94 and 1994-95

April to March
Year-over-year growth

per cent change

50



Total excise taxes and duties were up only \$0.2 billion or 0.7 per cent from year earlier collections. Goods and Services Tax (GST) collections were up 5.2 per cent on a year-over-year basis, in large part due to the impact of strong imports. Customs import duties, however, were up marginally, as the strong growth in imports was offset by reductions in tariffs as specified under international agreements. Sales and excise taxes were down 8.5 per cent, primarily due to the impact of the reductions in the tobacco excise tax announced on February 8, 1994.

Non-tax revenues are down nearly \$1 billion, reflecting much lower Exchange Fund earnings in 1994-95 than in 1993-94. The earnings of the Exchange Fund Account are comprised primarily of interest on its foreign currency reserves, the valuation gain or loss stemming from exchange rate developments and net proceeds from the sale of gold. Exchange Fund earnings in 1994-95 amounted to \$1.8 billion, \$1.1 billion lower than recorded in 1993-94. The lower earnings were attributable to much lower valuation gains, as the Canadian dollar did not depreciate as much in 1994-95 as it did in 1993-94. In addition, the net proceeds from gold sales were down. In contrast, interest received increased, in line with the increases in international interest rates.

Budgetary expenditures up

Over the period April 1994 to March 1995, total budgetary expenditures were up 1.9 per cent, on a year-over-year basis, as higher public debt charges more than offset the decline in program spending.

Public debt charges up

Public debt charges increased by \$4.0 billion, or 10.6 per cent. Of this increase, about \$2.6 billion was due to the increase in the gross stock of debt, or interest-bearing debt, with the remainder due to higher interest rates. Interest-bearing debt, which includes unmatured debt and borrowing from the pension accounts was up \$30.5 billion from 1993-94. Short-term interest rates were up about 200 basis points while long-term rates were up about 140 basis points, on average, in 1994-95 compared to 1993-94.

Program spending lower

Program spending declined by \$1.2 billion (1.0 per cent) in the April 1994 to March 1995 period, compared to the same period in 1993-94. This decline reflects a number of factors:

- lower unemployment insurance benefits, down 14.9 per cent, reflecting the impact of strong growth in employment and the effect of the budget restructuring measures; and
- lower spending on operating and capital by defence and other government departments, reflecting the impact of restraint measures announced in the 1994 budget.

In contrast, increases were recorded in elderly benefits, in transfers to provinces, and in other transfer payments. Crown corporation expenditures were unchanged.

Budgetary expenditures 1993-94 and 1994-95

April to March
Year-over-year growth

per cent change

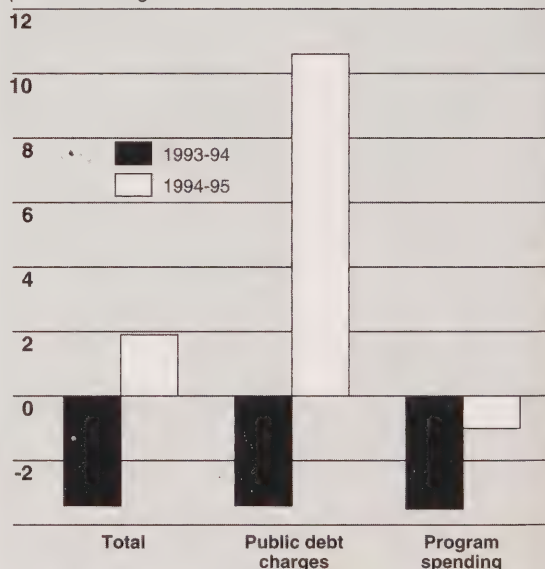


Table 3

Budgetary expenditures

	March		April to March		Per cent change
	1994	1995	1993-94	1994-95	
	(in millions of dollars)				(%)
Transfer payments to:					
Persons					
Elderly benefits	1,683	1,732	19,895	20,514	3.1
Unemployment insurance benefits	1,779	1,480	17,469	14,862	-14.9
Veterans' pensions/allowances	124	122	1,433	1,436	0.2
Total	3,585	3,334	38,797	36,813	-5.1
Other levels of government					
Established Programs Financing	973	1,172	9,610	10,003	4.1
Fiscal transfers	978	977	9,495	9,584	0.9
Canada Assistance Plan	358	354	7,123	7,279	2.2
Total	2,309	2,503	26,228	26,867	2.4
Other					
Agricultural subsidies	129	80	1,034	817	-21.0
Indian and Inuit programs	157	211	2,868	3,117	8.7
Regional development	50	64	361	457	26.5
Science and Technology	72	65	672	672	0.0
International assistance	382	691	2,097	2,433	16.0
Other	805	792	6,302	7,148	13.4
Total	1,596	1,902	13,334	14,644	9.8
Total transfers	7,490	7,739	78,359	78,323	0.0
Payments to Crown corporations					
Canadian Broadcasting Corporation	66	38	1,099	1,094	-0.4
Canada Mortgage and Housing Corporation	196	185	1,918	1,865	-2.8
Other	245	82	1,663	1,719	3.4
Total	506	305	4,679	4,677	0.0
Operating and capital expenditures					
Defence	1,045	968	10,481	9,970	-4.9
All other departmental expenditures	1,982	1,853	18,592	17,973	-3.3
Total	3,027	2,821	29,073	27,943	-3.9
Total program expenditures	11,023	10,865	112,111	110,943	-1.0
Public debt charges	3,019	3,874	37,921	41,925	10.6
Total budgetary expenditures	14,042	14,739	150,032	152,868	1.9

The Fiscal Monitor

Table 4

The deficit and financial requirements

	March		April to March	
	1993	1994	1993-94	1994-95
	(in millions of dollars)			
Deficit	-2,004	-3,203	-36,139	-31,912
Loans, investments and advances				
Crown corporations	-81	-72	449	1,239
Other	-42	-61	-146	-289
Total	-123	-133	303	950
Specified purpose accounts				
Canada Pension Plan Account	403	425	-72	692
Superannuation accounts	2,191	2,346	7,632	8,094
Other	-740	-101	-946	947
Total	1,854	2,670	6,614	9,733
Other transactions	-386	-1,248	-528	-4,393
Total non-budgetary transactions	1,345	1,289	6,389	6,290
Financial requirements (excluding foreign exchange transactions)	-659	-1,914	-29,750	-25,622

Table 5

Financial requirements, foreign exchange and unmatured debt transactions

	March		April to March	
	1994	1995	1993-94	1994-95
	(in millions of dollars)			
Financial requirements (excluding foreign exchange)	-659	-1,914	-29,750	-25,622
Foreign exchange transactions				
Net international reserves	112	925	977	-1,333
Unmatured debt transactions payable in foreign currencies	714	518	2,138	6,168
Total	826	1,443	3,115	4,835
Total financial requirements	167	-471	-26,635	-20,787
Unmatured debt transactions				
Marketable bonds	1,600	-2,827	24,176	24,966
Canada Savings Bonds	-437	-706	-3,047	146
Treasury bills	-1,001	3,750	3,949	-1,550
Other	713	519	2,939	3,389
Subtotal	875	736	28,017	26,959
<i>Less:</i>				
Government's holding of unmatured debt	192	115	78	-29
Unmatured debt transactions payable in foreign currency	-714	518	-2,138	-6,168
Subtotal	-522	-403	-2,060	-6,197
Total unmatured debt transactions payable in Canadian dollars	353	333	25,957	20,753
Change in cash balance	520	-138	-678	-34

Table 6

Cash, unmaturred debt and debt balances: at March 31

	1994	1995
	(in millions of dollars)	
Cash balances at end of period		
In Canadian dollars	2,030	1,817
In foreign currencies	173	287
Total cash balance	2,203	2,104
Unmaturred debt balance		
Payable in Canadian dollars		
Marketable bonds	203,450	225,640
Canada Savings Bonds	31,322	31,477
Treasury bills	165,999	164,450
Other	3,497	3,489
Subtotal	404,268	425,056
Less:		
Government's holdings of unmaturred debt	980	994
Total	403,288	424,062
Payable in foreign currencies		
Marketable bonds	2,049	7,789
Notes and loans	0	0
Canada bills	5,499	9,046
Subtotal	7,548	16,835
Less:		
Government's holdings of unmaturred debt	0	0
Total unmaturred debt	410,836	440,897

Financial requirements lower

Financial requirements measure the amount by which cash going out from the Government exceeds cash coming in. Financial requirements are lower than the deficit, as they also include the net source of funds from non-budgetary transactions. The latter includes transactions in loans, investments and advances, government employees' pension accounts, other specified accounts, and other financial assets and liabilities.

Non-budgetary transactions in the April 1994 to March 1995 period resulted in a net source of funds amounting to \$6.3 billion, marginally lower than the net source of \$6.4 billion recorded in the corresponding period of 1993-94.

As a result, financial requirements, excluding foreign exchange transactions, amounted to \$25.6 billion in 1994-95, down \$4.1 billion from

1993-94. Financial requirements are largely unaffected by the year-of-year accounting adjustments. As such these results will correspond closely to the final results for the year as a whole.

The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. It fulfils this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure on the currency.

In 1994-95, foreign exchange transactions provided a net source of funds amounting to \$4.8 billion, up \$1.7 billion from 1993-94.

As a result, total financial requirements, including foreign exchange transactions, were \$20.8 billion in 1994-95, down \$5.8 from 1993-94.

Table 7

Debt Servicing and Reduction Account

	1991-92	1992-93	1993-94	April to March 1994-95
	(in millions of dollars)			
Gross GST collected	29,565	30,516	32,652	35,460
<i>Less:</i>				
Refunds and rebates	11,330	12,138	13,338	16,195
GST paid by federal departments	804	1,006	933	871
Quarterly low-income tax credit	2,262	2,503	2,685	2,816
Net GST	15,168	14,868	15,696	15,578
GST penalties and interest received	19	71	90	
Gains from wind-up of interest in Crown corporations/disposal of shares in Crown corporations	2	110		
Gifts to the Crown	0.4	0.1	0.1	(1)
Proceeds to the DSRA	15,190	15,050	15,786	15,579

Figures for 1991-92, 1992-93, and 1993-94 are from the Public Accounts of Canada.

(1) Net gifts to the Crown amounted to \$454,987.53 for the period April 1994 to March 1995.

To finance these requirements, the Government borrows from the private sector and/or draws down its cash reserves. Total borrowing from the private sector (unmatured debt transactions) amounted to \$20.8 billion in 1994-95, down \$5.2 billion from 1993-94. Cash balances, as of March 31, 1995, stood at \$2.1 billion, down \$0.1 billion from March 31, 1994.

The Debt Servicing and Reduction Account

In June 1992, legislation to establish the Debt Servicing and Reduction Account (DSRA) received Royal Assent. As a result, effective

April 1, 1991, all Goods and Services Tax revenue net of the applicable input tax credits, rebates, and the low-income credit, along with the net proceeds from the sale of Crown corporations and gifts to the Crown identified for debt reduction must, by law, go directly to the Debt Servicing and Reduction Account. The funds in this Account can only be used to pay the cost of servicing the public debt and ultimately to reduce the debt. The Account is audited on an annual basis by the Auditor General of Canada.

The information in this Monitor is based on preliminary financial results for the quarter ended March 31, 1995. For further information contact: P. DeVries at 996-7397. Cet imprimé est également offert en français.

May 1995



The Fiscal Monitor

A Publication of the Department of Finance

Financial Highlights for April 1995

The deficit in April 1995 was estimated at \$5.3 billion, up slightly from the deficit of \$5.1 billion recorded in April 1994.

- The year-over-year increase in the deficit was solely attributable to higher public debt charges. This was anticipated. Public debt charges, on a year-over-year basis, were up \$0.7 billion, or 22.0 per cent. This increase reflects both the increase in the stock of debt and higher interest rates since April 1994. Short-term interest rates in April 1995 were about 200 basis points higher than in April 1994.
- Budgetary revenues were up \$0.2 billion, or 3.7 per cent in April 1995 compared to April 1994. All of the major components posted increases, with the exception of Goods and Services Tax collections, which declined by \$0.5 billion, on a year-over-year basis. This decline is related to the timing of receipts and refunds and should not affect the outcome for the year as a whole.
- Program spending declined 2.4 per cent, on a year-over-year basis, as lower unemployment insurance benefit payments, a decline in departmental operating costs, lower transfer payments and a decline in defence spending more than offset an increase in transfer payments to the provinces. Most of the declines in spending were related to the reductions announced in the 1994 and 1995 budgets.

Although the deficit was up marginally, financial requirements, excluding foreign exchange transactions, were \$1.1 billion lower in April 1995 than in April 1994.

The February 1995 budget assumed that economic growth would slow somewhat in 1995 from that recorded in 1994 and that interest rates would be substantially higher than in 1994. Based on these economic assumptions, coupled with the fiscal actions taken in the last budget, the deficit in 1995-96 was projected to decline to \$32.7 billion.

Based on recent economic data, growth will be weaker than projected in the budget but interest rates could be substantially lower. Although it is still too early to assess the impact of current economic developments on the deficit outlook for 1995-96, given the fiscal sensitivities, the impact of lower interest rates on public debt charges should be sufficient to offset the effect of lower growth on revenues and program spending.

Finally, the 1995-96 deficit target, includes a Contingency Reserve of \$2.5 billion to cover risks associated with unpredicted economic events.



The Fiscal Monitor

Table 1

Government of Canada Summary statement of financial transactions¹

	April	
	1994	1995
	(in millions of dollars)	
Budgetary transactions		
Revenues	6,350	6,588
Program spending	-8,257	-8,055
Operating balance	-1,907	-1,467
Public debt charges	-3,159	-3,855
Deficit	-5,066	-5,322
Non-budgetary transactions	-1,634	-245
Financial requirements (excluding foreign exchange transactions)	-6,700	-5,567
Foreign exchange transactions	2,144	-4,553
Financial requirements	-4,556	-10,120
Unmatured debt transactions	3,805	8,732

Note: Data compiled by the Receiver General for Canada.

¹ (+) indicates a source of funds, while (-) indicates a requirement for funds.

Table 2

Government of Canada Detailed statement of budgetary transactions – Revenues

	April	
	1994	1995
	(in millions of dollars)	
Income Tax		
Personal income tax	3,639	3,830
Corporate income tax	366	503
Other	158	204
Total income tax	4,163	4,537
Unemployment insurance contributions	1,581	1,602
Excise taxes and duties		
Goods and Services Tax	126	-347
Customs import duties	156	174
Sales and excise taxes	46	300
Total excise taxes/duties	328	127
Total tax revenue	6,072	6,266
Non-tax revenue	278	322
Total budgetary revenues	6,350	6,588

Table 3

Government of Canada

Detailed statement of budgetary transactions – Expenditures

	April	
	1994	1995
	(in millions of dollars)	
Transfer payments to:		
Persons		
Elderly benefits	1,635	1,655
Unemployment insurance benefits	1,390	1,137
Other	114	112
Total	3,139	2,904
Other levels of government		
Established Programs Financing	752	851
Fiscal transfers	858	1,002
Canada Assistance Plan	603	607
Total	2,213	2,460
Other		
Agriculture	81	9
Indians and Inuit	634	645
Regional development	1	2
Science and technology	2	2
International assistance	81	93
Other	310	272
Total	1,109	1,123
Total transfers	6,461	6,387
Payments to Crown corporations	484	491
Operating and capital expenditures		
Defence	421	404
All other departmental expenditures	891	773
Total	1,312	1,177
Total program spending	8,257	8,055
Public debt charges	3,159	3,855
Total budgetary expenditures	11,416	11,910

Table 4

Government of Canada

Non-budgetary transactions

	April	
	1994	1995
	(in millions of dollars)	
Loans, investments, and advances		
Crown corporations	-182	30
Other	-75	-366
Total	-257	-336
Specified purpose accounts		
Canada Pension Plan Account	514	557
Superannuation accounts	-150	-143
Other	-81	37
Total	283	451
Other transactions	-1,660	-360
Total non-budgetary transactions	-1,634	-245

Table 5
Government of Canada
Foreign exchange and unmatured debt transactions

	April	
	1994	1995
	(in millions of dollars)	
Foreign exchange transactions		
Net international reserves	1,665	-3,092
Unmatured debt transactions payable in foreign currencies	479	-1,461
Total	2,144	-4,553
Unmatured debt transactions		
Marketable bonds	2,875	3,050
Canada Savings Bonds	-798	-452
Treasury bills	1,600	6,000
Other	478	-1,462
Subtotal	4,155	7,136
<i>Less:</i>		
Government's holding of unmatured debt	129	135
Unmatured debt transactions payable in foreign currencies	-479	1,461
Subtotal	-350	1,596
Total unmatured debt transactions payable in Canadian dollars	3,805	8,732

Table 6
Government of Canada
Cash, unmatured debt and debt balances

	at April 30th	
	1994	1995
	(in millions of dollars)	
Cash balances at end of period		
In Canadian dollars	1,383	537
In foreign currencies	5	173
Total cash balance	1,388	710
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	206,324	228,690
Canada Savings Bonds	30,533	31,035
Treasury bills	167,600	170,450
Other	2,521	3,487
Sub-total	406,978	433,662
<i>Less:</i>		
Government's holdings of unmatured debt	847	855
Total	406,131	432,807
Payable in foreign currencies		
Marketable bonds	5,019	7,793
Notes and loans	0	0
Canada bills	6,128	7,585
Subtotal	11,147	15,378
<i>Less:</i>		
Government's holdings of unmatured debt	0	0
Total unmatured debt	417,278	448,185



The Fiscal Monitor

A Publication of the Department of Finance

Financial Highlights for May 1995

The deficit in May 1995 was estimated at \$1.1 billion, down \$0.2 billion from May 1994. The decline would have been larger, by \$0.4 billion, except that there was an extra pay period in May 1995 compared to May 1994.

- The year-over-year improvement in the deficit was attributable to higher budgetary revenues, which were up \$0.9 billion or 8.4 per cent on a year-over-year basis. Program spending was up slightly, while public debt charges were up \$0.6 billion, or 19.2 per cent from year earlier levels.
- Most of the increase in budgetary revenues was due to personal income tax collections, which were up \$0.6 billion or 12.7 per cent from May 1994. This reflected a combination of higher deductions from employment income, higher taxes paid on filing and lower refunds. Corporate income tax collections were up 16.5 per cent. Sales and excise taxes were somewhat lower.
- All of the increase in program spending was attributable to the timing of federal government employees' pay periods. For the majority of federal government employees, pay periods are once every two weeks. As a result, there are three pay periods within one month twice during the course of the year. In 1995-1996, the first three-pay period occurred in May 1995, whereas in 1994-95, it occurred in June 1994. This raised program spending by about \$0.4 billion in May 1995.
- Public debt charges, on a year-over-year basis, were up \$0.6 billion, or 19.2 per cent. This increase reflects both the increase in the stock of debt and higher interest rates since May 1994.

Financial Results for April and May 1995

Over the first two months of the fiscal year (April and May), the deficit was \$0.1 billion higher than in the same period in 1994-95, as higher public debt charges offset the increase in revenues and lower program spending. As noted above, the results to date are affected by the inclusion of an extra pay period in May 1995. Excluding this effect, the deficit over the first two months of 1995-96 would have been about \$0.3 billion lower than in the same period last year.

The February 1995 Budget assumed that economic growth would slow somewhat in 1995 from that recorded in 1994 and that interest rates would be substantially higher than in 1994. Based on these economic assumptions, coupled with the fiscal actions taken in the budget, the deficit in 1995-96 was projected to decline to \$32.7 billion.

Based on recent economic data, growth will be weaker than projected in the budget but interest rates could be substantially lower. Although it is still too early to assess the impact of current economic developments on the deficit outlook for 1995-96, given the fiscal sensitivities, the impact of lower interest rates on public debt charges should be sufficient to offset the effect of lower growth on revenues and program spending. Finally, the 1995-96 deficit target includes a Contingency Reserve of \$2.5 billion to cover risks associated with unpredicted economic events.



The Fiscal Monitor

Table 1

Government of Canada Summary statement of financial transactions¹

	May		April to May	
	1994	1995	1994-95	1995-96
(in millions of dollars)				
Budgetary transactions				
Revenues	10,527	11,409	16,876	17,997
Program spending	-8,603	-8,659	-16,860	-16,714
Operating balance	1,924	2,750	16	1,283
Public debt charges	-3,234	-3,882	-6,393	-7,737
Deficit	-1,310	-1,132	-6,377	-6,454
Non-budgetary transactions	141	783	-1,491	538
Financial requirements (excluding foreign exchange transactions)	-1,169	-349	-7,868	-5,916
Foreign exchange transactions	792	2,382	2,935	-2,171
Financial requirements	-377	2,033	-4,933	-8,087
Unmatured debt transactions	706	1,048	4,510	9,780

Note: Data compiled by the Receiver General for Canada.

¹ (+) indicates a source of funds, while (-) indicates a requirement for funds.

Table 2

Government of Canada Detailed statement of budgetary transactions – Revenues

	May		April to May	
	1994	1995	1994-95	1995-96
(in millions of dollars)				
Tax revenues				
Personal income tax	5,039	5,680	8,678	9,510
Corporate income tax	866	1,009	1,232	1,513
Other	126	117	284	320
Total income tax	6,031	6,806	10,194	11,343
Unemployment insurance contributions	1,625	1,641	3,206	3,243
Excise taxes and duties				
Goods and Services Tax	1,602	1,601	1,729	1,254
Customs import duties	249	228	405	402
Sales and excise taxes	757	718	803	1,018
Total excise taxes/duties	2,608	2,547	2,937	2,674
Total tax revenue	10,264	10,995	16,337	17,261
Non-tax revenue	263	414	539	736
Total budgetary revenues	10,527	11,409	16,876	17,997

Table 3

Government of Canada

Detailed statement of budgetary transactions – Expenditures

	May		April to May	
	1994	1995	1994-95	1995-96
(in millions of dollars)				
Transfer payments to:				
Persons				
Elderly benefits	1,703	1,735	3,337	3,390
Unemployment insurance benefits	1,369	1,188	2,759	2,325
Other	119	120	233	232
Total	3,191	3,043	6,329	5,947
Other levels of government				
Established Programs Financing	752	705	1,504	1,555
Fiscal transfers	852	551	1,711	1,553
Canada Assistance Plan	715	687	1,318	1,293
Total	2,319	1,943	4,533	4,401
Other				
Agriculture	14	14	96	23
Indians and Inuit	264	255	897	900
Regional development	10	19	11	21
Science and technology	18	46	19	48
International assistance	117	83	198	176
Other	384	526	694	797
Total	807	943	1,915	1,965
Total transfers	6,317	5,929	12,777	12,313
Payments to Crown corporations	342	252	825	742
Operating and capital expenditures				
Defence	675	853	1,096	1,257
All other departmental expenditures	1,270	1,625	2,162	2,402
Total	1,945	2,478	3,258	3,659
Total program spending	8,604	8,659	16,860	16,714
Public debt charges	3,234	3,882	6,393	7,737
Total budgetary expenditures	11,838	12,541	23,253	24,451

Table 4

Government of Canada

Non-budgetary transactions

	May		April to May	
	1994	1995	1994-95	1995-96
(in millions of dollars)				
Loans, investments, and advances				
Crown corporations	-40	-53	-222	-24
Other	-55	-9	-130	-374
Total	-95	-62	-352	-398
Specified purpose accounts				
Canada Pension Plan Account	670	740	1,184	1,296
Superannuation accounts	-171	-170	-320	-313
Other	1	-24	-80	14
Total	500	546	784	997
Other transactions	-264	299	-1,923	-61
Total non-budgetary transactions	141	783	-1,491	538

The Fiscal Monitor

Table 5

Government of Canada Foreign exchange and unmatured debt transactions

	May		April to May	
	1994	1995	1994-95	1995-96
(in millions of dollars)				
Foreign exchange transactions				
Net international reserves	326	4,247	1,990	1,155
Unmatured debt transactions payable in foreign currencies	466	-1,865	945	-1,326
Total	792	2,382	2,935	-2,171
Unmatured debt transactions				
Marketable bonds	2,000	3,565	4,875	6,615
Canada Savings Bonds	-557	-430	-1,356	-882
Treasury bills	-900	-2,250	700	3,750
Other	465	-1,866	943	-3,324
Subtotal	1,008	-981	5,162	6,155
<i>Less:</i>				
Government's holding of unmatured debt	164	164	293	299
Unmatured debt transactions payable in foreign currencies	-466	1,865	-945	3,326
Subtotal	-302	2,029	-652	3,625
Total unmatured debt transactions payable in Canadian dollars	706	1,048	4,510	9,780

Table 6

Government of Canada Cash, unmatured debt and debt balances

	at May 31	
	1994	1995
(in millions of dollars)		
Cash balances at end of period		
In Canadian dollars	1,691	3,563
In foreign currencies	24	24
Total cash balance	1,715	3,587
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	208,320	232,255
Canada Savings Bonds	29,976	30,504
Treasury bills	166,700	168,200
Other	3,496	3,486
Subtotal	408,492	434,445
<i>Less:</i>		
Government's holdings of unmatured debt	683	692
Total	407,809	433,753
Payable in foreign currencies		
Marketable bonds	5,019	7,875
Notes and loans	0	0
Canada bills	6,594	5,720
Subtotal	11,613	13,595
<i>Less:</i>		
Government's holdings of unmatured debt	0	0
Total unmatured debt	419,422	447,348



The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for June 1995

Deficit down \$0.2 in June 1995

The deficit in June 1995 was estimated at \$2.7 billion, down \$0.2 billion from June 1994.

- The year-over-year improvement in the deficit was attributable to higher budgetary revenues and lower program spending. In contrast, public debt charges were up sharply from year earlier levels.

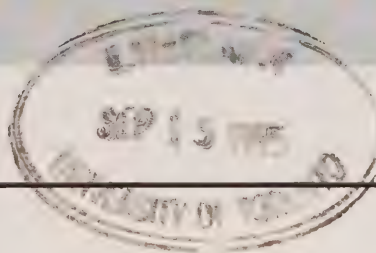
Deficit for April to June 1995 down by \$0.1 billion

Over the first three months of the fiscal year, the deficit, at \$9.1 billion, was \$0.1 billion lower than in the same period in 1994-95.

- Budgetary revenues were up \$1.6 billion, on a year-over-year basis. This increase in collections reflected strong growth in income taxes, dampened by a decline in sales and excise tax collections.
- Program spending declined by \$0.5 billion, as lower expenditures on unemployment insurance benefits, departmental operating and capital spending and Crown corporation expenditures more than offset increases in other components.
- Public debt charges were up by \$1.9 billion. This increase reflects both the increase in the stock of debt and higher interest rates since May 1994.

The February 1995 budget assumed that economic growth would slow somewhat in 1995 from that recorded in 1994 and that interest rates would be substantially higher than in 1994. Based on these economic assumptions, coupled with the fiscal actions taken in the budget, the deficit in 1995-96 was projected to decline to \$32.7 billion.

Based on recent economic data, growth will be weaker than projected in the budget but interest rates could be lower. Although it is still too early to assess the impact of current economic developments on the deficit outlook for 1995-96, given the fiscal sensitivities, the impact of lower interest rates on public debt charges should offset the effect of lower growth on revenues and program spending. Finally, the 1995-96 deficit target includes a Contingency Reserve of \$2.5 billion to cover risks associated with unpredicted economic events.



The Fiscal Monitor

Table 1

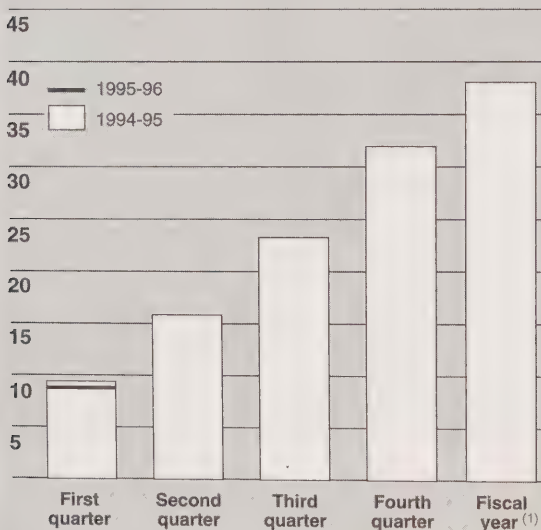
Summary statement of transactions

	June		April to June	
	1994	1995	1994-95	1995-96
(in millions of dollars)				
Budgetary transactions				
Revenues	9,942	10,402	26,819	28,399
Program spending	-9,444	-9,126	-26,303	-25,841
Operating surplus	498	1,276	516	2,558
Public debt charges	-3,409	-3,963	-9,802	-11,699
Deficit	-2,911	-2,687	-9,286	-9,141
Non-budgetary transactions	-1,820	-2,131	-3,309	-1,592
Financial requirements (excluding foreign exchange transactions)	-4,731	-4,818	-12,595	-10,733
Foreign exchange transactions:				
net source (+) / requirement (-)	1,279	1,544	1,656	-627
Total financial requirements	-6,010	-3,274	-10,939	-11,360
Unmatured debt transactions	4,906	1,981	9,416	11,761

The federal deficit 1994-95 and 1995-96

Year to date

billions of dollars



⁽¹⁾ Estimate: February 1995 budget.

Budgetary revenues up in first quarter

On a year-over-year basis, budgetary revenues over the April 1995 to June 1995 period, increased by \$1.6 billion (5.9 per cent). Most of this increase was attributable to higher personal income tax collections, up \$1.2 billion. This reflected a combination of higher deductions from employment income, increased instalment payments and higher taxes paid on filing relating to the 1994 taxation year.

Corporate income tax collections increased by \$0.5 billion in the first quarter of 1995-96, attributable to the continued strength in corporate profits.

Unemployment insurance premium contributions advanced by \$0.1 billion, as the impact of lower premium rates in 1995 was more than offset by an increase in maximum insurable earnings – the applicable base to which premium rates are applied – and higher employment.

Table 2

Budgetary revenues

	June		April to June		Per cent change
	1994	1995	1994-95	1995-96	
	(in millions of dollars)				(%)
Income taxes					
Personal income tax	4,444	4,793	13,121	14,303	9.0
Corporate income tax	1,011	1,216	2,243	2,728	21.6
Other	108	133	392	453	15.7
Total income tax	5,563	6,142	15,756	17,484	11.0
Unemployment insurance contributions	1,660	1,684	4,866	4,927	1.3
Excise taxes and duties					
Goods and Services Tax	1,377	1,337	3,106	2,592	-16.5
Customs import duties	280	240	685	642	-6.3
Sales and excise taxes	587	569	1,390	1,587	14.1
Total excise taxes and duties	3,244	3,146	5,271	4,821	-7.0
Total tax revenue	9,467	9,972	25,803	27,232	5.3
Non-tax revenue	475	430	1,016	1,167	14.9
Total budgetary revenues	9,942	10,402	26,819	28,399	5.9

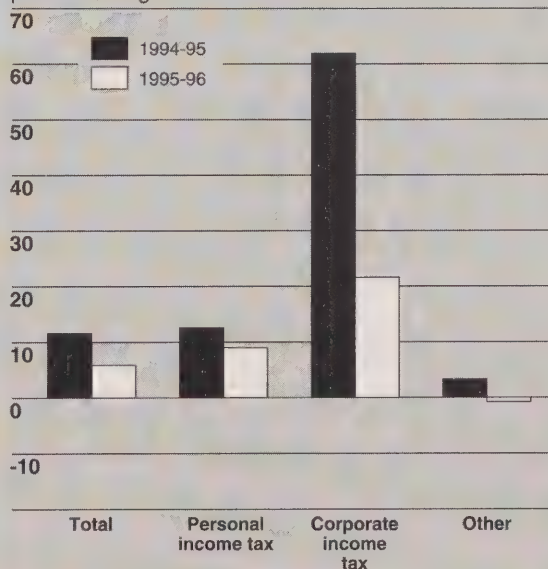
Total excise taxes and duties declined \$0.4 billion, primarily reflecting lower Goods and Services Tax (GST) collections.

- Although gross GST receipts were up 6.4 per cent in the first quarter of 1995-96, this was more than offset by higher refunds. As a result, net GST collections were 16.4 per cent below the first quarter 1994-95 level.
- Customs import duties declined, in part reflecting reductions in tariffs under the Canada-United States Free Trade Agreement.
- Sales and excise taxes and duties were up, largely due to the increase in gasoline and tobacco tax rates introduced in February 1995.

Budgetary revenues 1994-95 and 1995-96

April to June
Year-over-year growth

per cent change



Budgetary expenditures higher due to higher interest rates

In the first quarter of 1995-96, total budgetary expenditures were up 4.0 per cent, or \$1.4 billion, on a year-over-year basis. Public debt charges, the largest single component of budgetary expenditures, increased by \$1.9 billion, or 19.4 per cent.

- The increase in public debt charges reflects both the increase in the stock of debt and higher interest rates since May 1994.

Program spending lower

Program spending declined by \$0.5 billion (1.8 per cent) in the April 1995 to June 1995 period, compared to the same period in 1994-95. This decline primarily reflects:

- lower unemployment insurance benefits, down 16.9 per cent, reflecting a decline in the number of persons eligible for unemployment insurance benefits and the impact of recent budget measures;
- lower spending on operating and capital by the non-defence departments and lower expenditures on Crown corporations, reflecting the impact of restraint measures; and
- lower transfers in the "other" component, primarily for agriculture and international assistance, in part reflecting the impact of restraint measures.

In contrast, transfers to provinces, including Equalization, Established Programs Financing and Canada Assistance Plan, were up \$0.2 billion or 3.3 per cent. Part of this increase was attributable to timing considerations. Defence spending was up, largely associated with the timing of payments for a number of capital items approved in previous fiscal years. Finally, payments to the elderly were up 1.8 per cent, reflecting increases in the eligible population and higher monthly benefits, the latter which are indexed to quarterly changes in the Consumer Price Index.

Financial requirements lower

Financial requirements measure the amount by which cash going out from the government exceeds cash coming in. Financial requirements are lower than the deficit, as they also include the net source of funds from non-budgetary transactions. The latter includes transactions in loans, investments and advances, government employees' pension accounts, other specified accounts, and other financial assets and liabilities.

Non-budgetary transactions in the April 1995 to June 1995 period resulted in a net requirements of funds amounting to \$1.6 billion, compared to \$3.3 billion recorded in the corresponding period of 1994-95.

As a result, financial requirements, excluding foreign exchange transactions, amounted to \$10.7 billion in the first quarter of 1995-96, down \$1.9 billion from that recorded in the first quarter of 1994-95.

Budgetary expenditures 1994-95 and 1995-96

April to June
Year-over-year growth

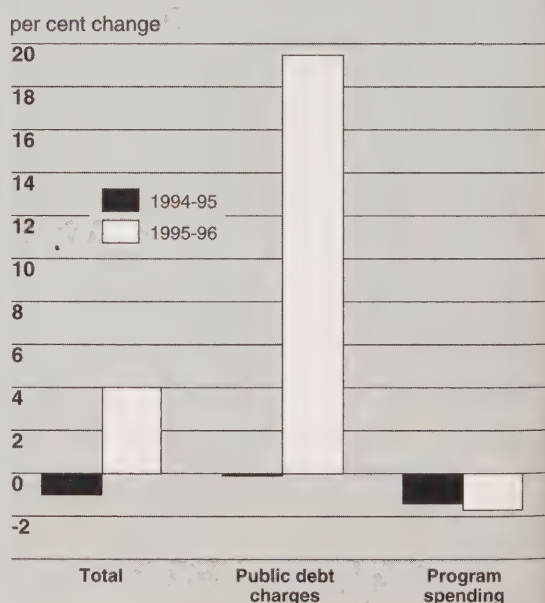


Table 3

Budgetary expenditures

	June		April to June		Per cent change
	1994	1995	1994-95	1995-96	
	(in millions of dollars)				(%)
Transfer payments to:					
Persons					
Elderly benefits	1,716	1,745	5,054	5,135	1.6
Unemployment insurance benefits	1,194	958	3,953	3,283	-16.9
Veterans' pensions/allowances	121	119	354	351	-0.7
Total	3,031	2,822	9,361	8,769	-6.3
Other levels of government					
Established Programs Financing	752	764	2,257	2,318	2.7
Fiscal transfers	907	1,103	2,618	2,656	1.4
Canada Assistance Plan	776	934	2,093	2,227	6.4
Total	2,435	2,801	6,968	7,201	3.3
Other					
Agricultural subsidies	47	6	142	30	-78.9
Indian and Inuit programs	259	255	1,157	1,155	-0.1
Regional development	17	19	28	40	42.8
Science and Technology	67	57	62	66	6.4
International assistance	98	100	295	276	-6.4
Other	493	477	1,212	1,313	8.3
Total	982	914	2,896	2,880	-0.6
Total transfers	6,448	6,537	19,225	18,850	-0.7
Payments to Crown corporations					
Canadian Broadcasting Corporation	83	82	367	354	-3.5
Canada Mortgage and Housing Corporation	168	163	481	429	-10.8
Other	124	105	353	310	-12.2
Total	375	351	1,201	1,093	-9.0
Operating and capital expenditures					
Defence	826	825	1,922	2,082	8.3
All other departmental expenditures	1,795	1,413	3,954	3,815	-3.5
Total	2,621	2,238	5,877	5,897	0.3
Total program expenditures	9,444	9,126	26,303	25,841	-1.8
Public debt charges	3,409	3,963	9,802	11,699	19.4
Total budgetary expenditures	12,853	13,089	36,105	37,540	4.0

The Fiscal Monitor

Table 4

The deficit and financial requirements

	June		April to June	
	1994	1995	1994-95	1995-96
	(in millions of dollars)			
Deficit	-2,911	-2,687	-9,286	-9,141
Loans, investments and advances				
Crown corporations	-19	122	-241	98
Other	-60	-190	-189	-563
Total	-79	-68	-430	-465
Specified purpose accounts				
Canada Pension Plan Account	336	21	1,520	1,318
Superannuation accounts	2,245	2,339	1,925	2,026
Other	35	-19	-44	-6
Total	2,616	2,341	3,401	3,338
Other transactions	-4,356	-4,404	-6,280	-4,465
Total non-budgetary transactions	-1,820	-2,131	-3,309	-1,592
Financial requirements (excluding foreign exchange transactions)	-4,731	-4,818	-12,595	-10,733

Table 5

Financial requirements, foreign exchange and unmatured debt transactions

	June		April to June	
	1994	1995	1994-95	1995-96
	(in millions of dollars)			
Financial requirements (excluding foreign exchange)	-4,731	-4,818	-12,595	-10,733
Foreign exchange transactions				
Net international reserves	-2,448	-91	-458	1,064
Unmatured debt transactions payable in foreign currencies	1,169	1,635	2,114	-1,691
Total	-1,279	1,544	1,656	-627
Total financial requirements	-6,010	-3,274	-10,939	-11,360
Unmatured debt transactions				
Marketable bonds	4,500	3,953	9,376	10,568
Canada Savings Bonds	-565	-384	-1,921	-1,266
Treasury bills	850	-3	1,550	3,747
Other	1,168	-90	2,111	-3,418
Subtotal	5,954	3,476	11,116	9,631
<i>Less:</i>				
Government's holding of unmatured debt	121	140	414	439
Unmatured debt transactions payable in foreign currency	-1,169	-1,635	-2,114	1,691
Subtotal	-1,048	-1,495	-1,700	2,130
Total unmatured debt transactions payable in Canadian dollars	4,906	1,981	9,416	11,761
Change in cash balance	-1,104	-1,293	-1,523	401

Table 6

Cash, unmatured debt and debt balances

	at June 1995	
	1994	1995
	(in millions of dollars)	
Cash balances at end of period		
In Canadian dollars	591	2,289
In foreign currencies	22	5
Total cash balance	613	2,294
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	212,821	234,155
Canada Savings Bonds	29,411	30,120
Treasury bills	167,550	168,197
Other	3,495	3,814
Subtotal	413,277	436,286
Less:		
Government's holdings of unmatured debt	562	552
Total	412,715	435,734
Payable in foreign currencies		
Marketable bonds	5,019	9,929
Notes and loans	0	0
Canada bills	7,763	5,302
Subtotal	12,782	15,231
Less:		
Government's holdings of unmatured debt	0	0
Total unmatured debt	425,497	450,965

The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. It fulfils this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure on the currency.

In the first quarter of 1995-96, foreign exchange transactions provided a net requirement of funds amounting to \$0.6 billion, compared to a net source of funds amounting to \$1.7 billion in the first quarter of 1994-95.

As a result, total financial requirements, including foreign exchange transactions, were \$11.4 billion in the first quarter of 1995-96, up \$0.4 from the net requirement in the same period last year.

To finance these requirements, the government borrows from the private sector and/or draws down its cash reserves. Total borrowings from the private sector (unmatured debt transactions) amounted to \$11.8 billion in the first quarter of 1995-96, up \$2.4 billion from that borrowed on financial markets during the same period last year. Cash balances, as of June 30, 1995, stood at \$2.3 billion, compared to \$0.6 billion at June 30, 1994.

The Fiscal Monitor

Table 7

Debt Servicing and Reduction Account

	1991-92	1992-93	1993-94	1994-95	April to Jun 1995-96
	(in millions of dollars)				
Gross GST collected	29,564	30,516	32,652	35,460	7,895
<i>Less:</i>					
Refunds and rebates	11,330	12,138	13,338	16,195	4,580
Quarterly low-income tax credit	2,262	2,503	2,685	2,816	723
Net GST	15,168	14,868	15,696	15,578	2,592
GST penalties and interest received	19	71	90		
Gains from wind-up of interest in Crown corporations/disposal of shares in Crown corporations	2	110			
Gifts to the Crown	0.4	0.1	0.1	0.4	
Proceeds to the DSRA	15,190	15,050	15,786	15,579	2,592

Figures for 1991-92, 1992-93, and 1993-94 are from the Public Accounts of Canada.
Figures for 1994-95 are for April 1994 to March 1995.

The Debt Servicing and Reduction Account

In June 1992, legislation to establish the Debt Servicing and Reduction Account received Royal Assent. As a result, effective April 1, 1991, all Goods and Services Tax revenue net of the applicable input tax credits, rebates, and the low-income credit, along with the net proceeds from the Sale of Crown corporations and gifts to the Crown

identified for debt reduction must, by law, go directly to the Debt Servicing and Reduction Account. The funds in this Account can only be used to pay the cost of servicing the public debt and ultimately to reduce the debt. The Account is audited on an annual basis by the Auditor General of Canada.



The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for July 1995

Deficit down \$1.2 billion in July

The deficit in July 1995 was estimated at \$1.4 billion, down \$1.2 billion from July 1994.

- The year-over-year improvement in the deficit was attributable to higher budgetary revenues, up \$0.9 billion or 9.6 per cent, and lower program spending, down \$0.8 billion or 9.6 per cent. In contrast, public debt charges in July 1995 were up \$0.6 billion, or 17.1 per cent, from year earlier levels.
- About half of the increase in budgetary revenues was due to higher Goods and Services Tax (GST) collections (up \$0.5 billion or 82.3 per cent), coupled with continued strong growth in personal income tax (up \$0.4 billion or 7.4 per cent) and corporation income tax (up \$0.1 billion or 12.8 per cent) collections. The large increase in GST collections primarily reflects timing factors, related to the receipt of collections and the payment of input tax credits.
- The decline in program spending was widespread throughout all components, largely attributed to the effect of the restraint measures announced in the 1995 budget.

Deficit for April to July 1995 down by \$1.3 billion

Over the first four months of the fiscal year (April to July), the deficit was \$1.3 billion lower than in the same period in 1994-95.

- Budgetary revenues were up \$2.5 billion or 6.9 per cent, on a year-over-year basis. This increase in collections reflected strong growth in personal and corporate income taxes collections. GST collections were virtually unchanged on a year-over-year basis while other excise taxes and duties were up due to the increases in tax rates announced in February 1995.
- Program spending declined by \$1.3 billion or 3.7 per cent. All major components registered declines, with the exception of transfers to other levels of government, which were up 1.0 per cent. The declines in program spending largely reflected the impact of the 1995 budget measures.
- Public debt charges were up by \$2.5 billion, reflecting both the increase in the stock of debt and higher interest rates since May 1994.

The February 1995 budget projected that the deficit in 1995-96 would decline to \$32.7 billion.

Based on recent economic data, growth will be weaker than projected in the budget but interest rates could be substantially lower. Although it is still too early to assess the impact of current economic developments on the deficit outlook for 1995-96, given the fiscal sensitivities, the impact of lower interest rates on public debt charges should be sufficient to offset the effect of lower growth on revenues and program spending. Finally, the 1995-96 deficit target includes a Contingency Reserve of \$2.5 billion to cover risks associated with unpredicted economic events.



The Fiscal Monitor

Table 1

Summary statement of transactions¹

	July		April to July	
	1994	1995	1994-95	1995-96
(in millions of dollars)				
Budgetary transactions				
Revenues	9,655	10,581	36,473	38,980
Program spending	-8,807	-7,962	-35,111	-33,803
Operating balance	-848	2,619	1,362	5,177
Public debt charges	-3,422	-4,007	-13,224	-15,706
Deficit	-2,574	-1,388	-11,862	-10,529
Non-budgetary transactions	1,837	1,578	-1,473	-13
Financial requirements (excluding foreign exchange transactions)	-737	190	-13,335	-10,542
Foreign exchange transactions	196	-1,579	1,852	-2,025
Financial requirements	-541	-1,389	-11,483	-12,747
Unmatured debt transactions	1,545	2,243	10,962	14,003

Note: Data compiled by the Receiver General of Canada.

¹ (+) indicates a source of funds, while (-) indicates a requirement for funds.

Table 2

Detailed statement of budgetary transactions – Revenues

	July		April to July	
	1994	1995	1994-95	1995-96
(in millions of dollars)				
Income taxes				
Personal income tax	4,908	5,269	18,030	19,572
Corporate income tax	968	1,092	3,211	3,820
Other income tax revenue	206	201	598	654
Total income tax	6,082	6,562	21,839	24,046
Unemployment insurance contributions	1,691	1,706	6,557	6,634
Excise taxes and duties				
Goods and Services Tax	631	1,150	3,737	3,742
Customs import duties	303	223	988	865
Sales and excise taxes	504	576	1,894	2,164
Total excise taxes/duties	1,437	1,949	6,619	6,771
Total tax revenue	9,211	10,217	35,015	37,451
Non-tax revenue	444	364	1,458	1,529
Total budgetary revenues	9,655	10,581	36,473	38,980

Table 3

Detailed statement of budgetary transactions – Expenditures

	July		April to July	
	1994	1995	1994-95	1995-96
(in millions of dollars)				
Transfer payments to:				
Persons				
Elderly benefits	1,706	1,749	6,760	6,884
Unemployment insurance benefits	1,034	905	4,987	4,188
Other	119	119	473	470
Total	2,859	2,773	12,220	11,542
Other levels of government				
Established Programs Financing	763	769	3,020	3,087
Fiscal transfers	802	699	3,420	3,355
Canada Assistance Plan	719	676	2,813	2,903
Total	2,284	2,144	9,253	9,345
Other				
Agricultural	36	26	178	56
Indian and Inuit	219	242	1,376	1,485
Regional development	16	22	44	62
Science and Technology	35	29	185	168
International assistance	233	93	528	370
Other	339	318	1,564	1,469
Total	878	730	3,875	3,610
Total transfers	6,121	5,647	25,348	24,497
Payments to Crown corporations	318	342	1,518	1,435
Operating and capital expenditures				
Defence	943	746	2,866	2,828
All other departmental expenditures	1,425	1,227	5,379	5,043
Total	2,368	1,973	8,245	7,871
Total program spending	8,807	7,962	35,111	33,803
Public debt charges	3,422	4,007	13,224	15,706
Total budgetary expenditures	12,229	11,969	48,335	49,509

Table 4

Non-budgetary transactions

	July		April to July	
	1994	1995	1994-95	1995-96
(in millions of dollars)				
Loans, investments and advances				
Crown corporations	412	402	171	500
Other	-27	-80	-216	-643
Total	385	322	-45	-143
Specified purpose accounts				
Canada Pension Plan Account	-325	-476	1,195	842
Superannuation accounts	-147	-167	1,778	1,858
Other	33	-5	-12	-9
Total	-439	-648	2,961	2,691
Other transactions	1,891	1,904	-4,389	-2,561
Total non-budgetary transactions	1,837	1,578	-1,473	-13

The Fiscal Monitor

Table 5

Foreign exchange and unmatured debt transactions

	July		April to July	
	1994	1995	1994-95	1995-96
	(in millions of dollars)			
Foreign exchange transactions				
Net international reserves	2,714	-1,303	-3,172	-239
Unmatured debt transactions payable in foreign currencies	2,910	-276	5,024	-1,966
Total	196	-1,579	1,852	-2,205
Unmatured debt transactions				
Marketable bonds	6,123	5,023	15,499	15,592
Canada Savings Bonds	-566	-285	-2,487	-1,551
Treasury bills	-1,550	-3,248		499
Other	329	352	2,440	-3,066
Subtotal	4,336	1,842	15,452	11,474
<i>Less:</i>				
Government's holding of unmatured debt	119	125	534	563
Unmatured debt transactions payable in foreign currencies	-2,910	276	-5,024	1,966
Subtotal	-2,791	401	-4,490	2,529
Total unmatured debt transactions payable in Canadian dollars	1,545	2,243	10,962	14,003

Table 6

Cash, unmatured debt and debt balances

	at July 31	
	1994	1995
	(in millions of dollars)	
Cash balances at end of period		
In Canadian dollars	1,605	3,125
In foreign currencies	14	21
Total cash balance	1,619	3,146
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	216,171	239,355
Canada Savings Bonds	28,845	29,835
Treasury bills	166,000	164,949
Other	3,687	4,265
Subtotal	414,703	438,404
<i>Less:</i>		
Government's holdings of unmatured debt	442	428
Total	414,261	437,976
Payable in foreign currencies		
Marketable bonds	7,792	9,752
Notes and loans	0	0
Canada bills	7,900	5,203
Subtotal	15,692	14,955
<i>Less:</i>		
Government's holdings of unmatured debt	0	0
Total unmatured debt	429,953	452,931

For further information contact: P. DeVries at 996-7397.
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September 1995



The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for August 1995

Deficit up \$0.5 billion in August 1995

The deficit in August 1995 was estimated at \$3.2 billion, up \$0.5 billion from August 1994.

- This increase in the deficit was expected given the large reduction in the deficit recorded in the previous month. As noted in the July 1995 Fiscal Monitor, some of the \$1.2 billion improvement in the deficit in July 1995 compared to July 1994 was attributable to the timing of certain receipts. A large portion of federal revenues come in at the end of each month. If the month ends on a weekend or if there is a holiday on the first working day of the following month, the recording of some receipts can be pushed into the following month. Last year, the August Civic Holiday fell on Monday, August 1st. This caused some receipts pertaining to July 1994 to be reported in August 1994, thereby increasing August receipts but dampening July receipts. This did not occur this year as the Civic Holiday fell on August 7th.
- In addition, the August 1995 results were also affected by the timing of certain payments, especially transfers to provinces under the Canada Assistance Plan, which were up 33.0 per cent in August 1995. In the 1994 budget, transfers under this program for 1995-96 were frozen at their 1994-95 level. As a result, transfers in subsequent months will be lower than during the corresponding period last year.
- These factors, therefore, should not have any impact on the overall deficit results for the year as a whole.

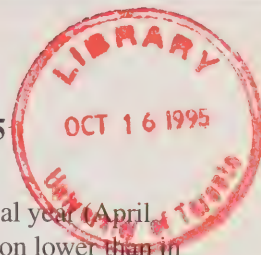
Deficit for April to August 1995 down by \$0.8 billion

Over the first five months of the fiscal year (April to August), the deficit was \$0.8 billion lower than in the same period in 1994-95, as increases in revenues and lower program spending more than offset the increase in public debt charges.

- Budgetary revenues were up \$2.6 billion or 5.6 per cent, on a year-over-year basis, with increases reported in all major components, except customs import duties.
- Program spending declined by \$1.1 billion or 2.5 per cent. All major components registered declines, with the exception of transfers to other levels of government (up 3.1 per cent) and expenditures related to Crown corporations (up 0.5 per cent). The declines in program spending largely reflected the impact of the 1994 and 1995 budget measures, while the increases largely reflected timing considerations.
- Public debt charges were up by \$2.9 billion. This increase reflects both the increase in the stock of debt and higher interest rates since May 1994.

The February 1995 budget projected that the deficit in 1995-96 would decline to \$32.7 billion.

Based on recent economic data, growth will be weaker than projected in the budget but interest rates could be substantially lower. Although it is still too early to assess the full impact of current economic developments on the deficit outlook for 1995-96, given the fiscal sensitivities, the impact of lower interest rates on public debt charges should be sufficient to offset the effect of lower growth on revenues and program spending. Finally, the 1995-96 deficit target includes a Contingency Reserve of \$2.5 billion to cover risks associated with unpredicted economic events.



The Fiscal Monitor

Table 1

Summary statement of transactions¹

	August		April to August	
	1994	1995	1994-95	1995-96
(in millions of dollars)				
Budgetary transactions				
Revenues	9,940	10,046	46,413	49,026
Program spending	-9,054	-9,268	-44,164	-43,070
Operating balance	886	778	2,249	5,956
Public debt charges	-3,507	-3,935	-16,731	-19,641
Deficit	-2,621	-3,157	-14,482	-13,685
Non-budgetary transactions	636	1,024	-836	1,011
Financial requirements (excluding foreign exchange transactions)	-1,855	-2,133	-15,318	-12,674
Foreign exchange transactions	1,263	-3,289	3,115	-5,496
Financial requirements	-722	-5,422	-12,203	-18,170
Unmatured debt transactions	524	5,110	11,488	19,113

Note: Data compiled by the Receiver General of Canada.

¹ (+) indicates a source of funds, while (-) indicates a requirement for funds.

Table 2

Detailed statement of budgetary transactions – Revenues

	August		April to August	
	1994	1995	1994-95	1995-96
(in millions of dollars)				
Income taxes				
Personal income tax	4,177	4,044	22,207	23,616
Corporate income tax	777	759	3,988	4,579
Other income tax revenue	118	154	716	807
Total income tax	5,072	4,957	26,911	29,002
Unemployment insurance contributions	1,678	1,703	8,236	8,336
Excise taxes and duties				
Goods and Services Tax	1,743	1,945	5,483	5,687
Customs import duties	293	288	1,281	1,154
Sales and excise taxes	743	645	2,636	2,808
Total excise taxes/duties	2,778	2,878	9,397	9,649
Total tax revenues	9,529	9,538	44,544	46,987
Non-tax revenues	411	508	1,869	2,039
Total budgetary revenues	9,940	10,046	46,413	49,026

Table 3

Detailed statement of budgetary transactions – Expenditures

	August		April to August	
	1994	1995	1994-95	1995-96
	(in millions of dollars)			
Transfer payments to:				
Persons				
Elderly benefits	1,724	1,752	8,483	8,637
Unemployment insurance benefits	1,233	1,040	6,221	5,228
Other	117	118	590	588
Total	3,074	2,910	15,294	14,453
Other levels of government				
Established Programs Financing	763	764	3,782	3,850
Fiscal transfers	815	842	4,235	4,197
Canada Assistance Plan	724	963	3,537	3,866
Total	2,302	2,569	11,554	11,913
Other				
Agricultural	51	20	229	75
Indian and Inuit	229	233	1,604	1,719
Regional development	32	43	76	105
Science and Technology	78	69	263	237
International assistance	150	135	678	505
Other	516	630	2,080	2,101
Total	1,056	1,131	4,930	4,742
Total transfers	6,432	6,610	31,778	31,108
Payments to Crown corporations	223	314	1,741	1,749
Operating and capital expenditures				
Defence	953	839	3,819	3,667
All other departmental expenditures	1,446	1,505	6,826	6,546
Total	2,399	2,344	10,645	10,213
Total program spending	9,054	9,268	44,164	43,070
Public debt charges	3,507	3,935	16,731	19,641
Total budgetary expenditures	12,561	13,203	60,895	62,711

Table 4

Non-budgetary transactions

	August		April to August	
	1994	1995	1994-95	1995-96
	(in millions of dollars)			
Loans, investments and advances				
Crown corporations	27	-120	165	336
Other	29	-2	-154	-602
Total	56	-122	11	-266
Specified purpose accounts				
Canada Pension Plan Account	-305	-150	890	692
Superannuation accounts	-115	-130	1,663	1,729
Other	22	25	11	16
Total	-398	-255	2,564	2,437
Other transactions	978	1,401	-3,411	-1,160
Total non-budgetary transactions	636	1,024	-836	1,011

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Table 5

Foreign exchange and unmatured debt transactions

	August		April to August	
	1994	1995	1994-95	1995-96
	(in millions of dollars)			
Foreign exchange transactions				
Net international reserves	1,219	-4,732	-1,953	-4,972
Unmatured debt transactions payable in foreign currencies	44	1,443	5,068	-524
Total	1,263	-3,289	3,115	-5,496
Unmatured debt transactions				
Marketable bonds	3,400	5,967	18,899	21,559
Canada Savings Bonds	-376	-297	-2,863	-1,847
Treasury bills	-2,650	1,351	-2,650	1,850
Other	43	-603	2,484	-3,670
Subtotal	417	6,418	15,870	17,892
<i>Less:</i>				
Government's holding of unmatured debt	152	135	686	697
Unmatured debt transactions payable in foreign currencies	-44	-1,443	-5,068	524
Subtotal	108	-1,308	-4,382	1,221
Total unmatured debt transactions payable in Canadian dollars	525	5,110	11,488	19,113

Table 6

Cash, unmatured debt and debt balances

	at August 31	
	1994	1995
	(in millions of dollars)	
Cash balances at end of period		
In Canadian dollars	1,380	2,692
In foreign currencies	42	143
Total cash balance	1,422	2,835
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	219,571	243,383
Canada Savings Bonds	28,468	29,539
Treasury bills	163,350	166,300
Other	3,686	4,264
Subtotal	415,075	443,486
<i>Less:</i>		
Government's holdings of unmatured debt	290	296
Total	414,785	443,190
Payable in foreign currencies		
Marketable bonds	7,792	11,796
Notes and loans	0	0
Canada bills	7,944	4,601
Subtotal	15,736	16,397
<i>Less:</i>		
Government's holdings of unmatured debt	0	0
Total unmatured debt	430,521	459,587

For further information contact: P. DeVries at 996-7397.
Cet imprimé est également offert en français.
October 1995



The Fiscal Monitor

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Highlights of financial results for September 1995

Deficit down \$0.5 in September 1995

The deficit in September 1995 was estimated at \$1.0 billion, down \$0.5 billion from September 1994.

- The year-over-year improvement in the deficit was attributable to higher budgetary revenues (up 4.2 per cent) and lower program spending (down 3.4 per cent), resulting in an improvement in the operating balance of \$0.8 billion. Part of this improvement was offset by higher public debt charges (up 8.8 per cent) from year earlier levels.

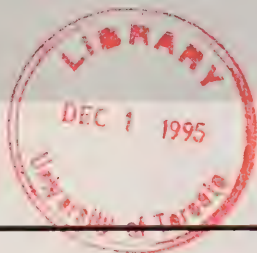
Deficit for April to September 1995 down by \$1.3 billion

Over the first six months of the fiscal year, the deficit, at \$14.7 billion, was \$1.3 billion lower than in the same period in 1994-95.

- Budgetary revenues were up \$3.1 billion or 5.4 per cent, on a year-over-year basis. This increase in collections reflected strong growth in income taxes (up 9.0 per cent), dampened by a decline in sales and excise tax collections (down 2.5 per cent).
- Program spending declined by \$1.4 billion or 2.6 per cent, as lower expenditures were reported among all major components with the exception of transfers to other levels of government.
- Public debt charges were up by \$3.2 billion, or 15.9 per cent. This increase reflects both the increase in the stock of debt and higher interest rates since May 1994.

The final deficit outcome for 1994-95 was \$37.5 billion, \$2.2 billion lower than the February 1994 budget target of \$39.7 billion.

The February 1995 budget projected that the deficit in 1995-96 would decline to \$32.7 billion. Based on recent economic data, growth will be weaker than projected in the budget. But interest rates, on average, to the end of October were substantially below the budget projections. With the improvement in the deficit to date, the deficit target of \$32.7 billion is on track. However, the final outcome will largely depend on interest rate developments over the balance of the fiscal year. Finally, the 1995-96 deficit target includes a Contingency Reserve of \$2.5 billion to cover risks associated with unpredicted economic events.



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Table 1

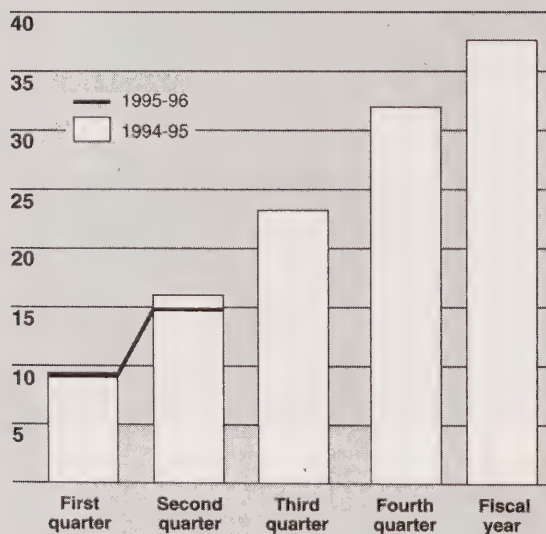
Summary statement of transactions

	September		April to September	
	1994	1995	1994-95	1995-96
(millions of dollars)				
Budgetary transactions				
Revenues	11,183	11,657	57,597	60,683
Program spending	-9,085	-8,779	-53,249	-51,849
Operating surplus	2,098	2,878	4,348	8,834
Public debt charges	-3,557	-3,870	-20,288	-23,511
Deficit	-1,459	-992	-15,940	-14,677
Non-budgetary transactions	-182	1,152	-1,017	2,163
Financial requirements (excluding foreign exchange transactions)	-1,461	160	-16,957	-12,514
Foreign exchange transactions: net source (+)/requirement (-)	-2,073	2,263	1,042	-3,233
Total financial requirements	-3,714	2,423	-15,915	-15,747
Unmatured debt transactions	3,721	2,033	15,210	21,145

The federal deficit 1994-95 and 1995-96

Year to date

billions of dollars



Budgetary revenues up in second quarter

On a year-over-year basis, budgetary revenues over the April 1995 to September 1995 period, increased by \$3.1 billion (5.4 per cent). Most of this increase was attributable to higher personal income tax collections, up \$2.1 billion. This reflected a combination of increased instalment payments, higher taxes paid on filing relating to the 1994 taxation year and higher employment.

Corporate income tax collections increased by \$0.7 billion in the first six months of 1995-96, attributable to the continued strength in corporate profits.

Unemployment insurance premium contributions advanced by \$0.1 billion, as the impact of lower premium rates in 1995 was more than offset by an increase in maximum insurable earnings – the applicable base to which premium rates are applied – and higher employment.

Table 2

Budgetary revenues

	September		April to September		Per cent change
	1994	1995	1994-95	1995-96	
	(millions of dollars)				(%)
Income taxes					
Personal income tax	5,591	6,328	27,798	29,944	7.7
Corporate income tax	714	857	4,701	5,436	15.6
Other	84	118	801	925	15.5
Total income tax	6,389	7,303	33,300	36,305	9.0
Unemployment insurance contributions	1,672	1,696	9,907	10,033	1.3
Excise taxes and duties					
Goods and Services Tax	1,670	1,162	7,150	6,849	-4.2
Customs import duties	437	274	1,718	1,427	-16.9
Other excise taxes/duties	477	602	3,113	3,410	9.5
Total excise taxes and duties	2,583	2,038	11,981	11,686	-2.5
Total tax revenue	10,645	11,037	55,188	58,024	5.1
Non-tax revenue	538	620	2,409	2,659	10.4
Total budgetary revenues	11,183	11,657	57,597	60,683	5.4

Total excise taxes and duties declined \$0.3 billion, as lower Goods and Services Tax (GST) and customs import duties collections more than offset an increase in other excise taxes and duties.

- Although gross GST receipts were up 5.9 per cent in the first six months of 1995-96, this was more than offset by higher refunds. As a result, net GST collections in the first six months of 1995-96 were 4.2 per cent below the comparable 1994-95 level.
- Customs import duties declined 16.9 per cent, in part reflecting reductions in tariffs under the Canada-United States Free Trade Agreement.
- Other excise taxes and duties were up 9.5 per cent, largely due to the increase in gasoline and tobacco tax rates introduced in February 1995.

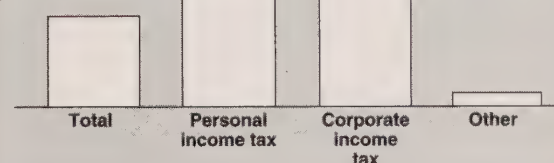
Budgetary revenues 1995-96

April to September
Year-over-year growth

per cent change
30

20

10



Budgetary expenditures higher due to higher interest rates

In the first six months of 1995-96, total budgetary expenditures were up 2.5 per cent, or \$1.8 billion, on a year-over-year basis. Public debt charges, the largest single component of budgetary expenditures, increased by \$3.2 billion, or 15.9 per cent.

- The increase in public debt charges reflects both the increase in the stock of debt and higher interest rates since May 1994.

Program spending lower

Program spending declined by \$1.4 billion, or 2.6 per cent in the April 1995 to September 1995 period, compared to the same period in 1994-95. This decline primarily reflects:

- lower unemployment insurance benefits, down 15.8 per cent, reflecting the impact of recent budget measures;
- lower spending on defence, operating and capital by the non-defence departments and on Crown corporations, reflecting the impact of restraint measures; and
- lower transfers in the "other" component, primarily for agriculture and international assistance, again largely reflecting the impact of restraint measures.

In contrast, transfers to provinces, including Equalization, Established Programs Financing and Canada Assistance Plan, were up \$0.2 billion or 1.3 per cent. Part of this increase was attributable to the timing of payments. Finally, payments to the elderly were up 1.9 per cent, reflecting increases in the eligible population and higher monthly benefits, the latter which are indexed to quarterly changes in the Consumer Price Index.

Financial requirements lower

Financial requirements measure the amount by which cash going out from the Government exceeds cash coming in. Financial requirements – for the fiscal year as a whole – are lower than the deficit, as they also include the net source of funds from non-budgetary transactions. The latter includes transactions in loans, investments and advances, government employees' pension accounts, other specified accounts, and other financial assets and liabilities.

Non-budgetary transactions in the April 1995 to September 1995 period resulted in a net source of funds amounting to \$2.2 billion, compared to a net requirement of \$1.0 billion recorded in the corresponding period of 1994-95.

Budgetary expenditures 1995-96

April to September
Year-over-year growth

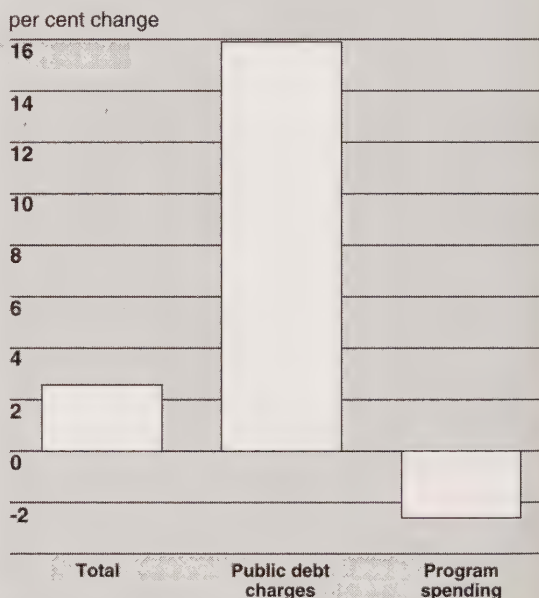


Table 3

Budgetary expenditures

	September		April to September		Per cent change
	1994	1995	1994-95	1995-96	
	(millions of dollars)				(%)
Transfers payments to:					
Persons					
Elderly benefits	1,706	1,751	10,190	10,388	1.9
Unemployment insurance benefits	1,030	880	7,250	6,107	-15.8
Veterans' pensions/allowances	123	117	713	705	-1.1
Total	2,859	2,748	18,154	17,200	-5.3
Other levels of government					
Established programs financing	763	764	4,545	4,614	1.5
Fiscal transfers	829	837	5,064	5,034	-0.6
Canada Assistance Plan	893	702	4,430	4,567	3.1
Total	2,485	2,303	14,039	14,218	1.3
Other					
Agricultural subsidies	36	109	265	205	-22.8
Indian & Inuit Programs	250	259	1,855	1,981	6.8
Regional development	29	40	105	145	38.3
Science & Technology	35	31	298	268	-10.3
International assistance	94	184	772	689	-10.8
Other	511	436	2,589	2,515	-2.9
Total	955	1,060	5,885	5,803	-1.4
Total transfers	6,299	6,111	38,077	37,218	-2.3
Payments to Crown corporations					
Canadian Broadcasting Corporation	130	90	598	613	2.5
Canada Mortgage & Housing Corporation	164	175	844	886	4.9
Other	147	118	740	633	-14.4
Total	441	383	2,182	2,132	-2.3
Operating and capital expenditures					
Defence	850	820	4,670	4,487	-3.9
All other departmental expenditures	1,495	1,465	8,320	8,012	-3.7
Total	2,345	2,285	12,990	12,499	-3.8
Total program expenditures	9,085	8,779	53,249	51,849	-2.6
Public debt charges	3,557	3,870	20,288	23,511	15.9
Total budgetary expenditures	12,642	12,649	73,537	75,360	2.5

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Table 4

The deficit and financial requirements

	September		April to September	
	1994	1995	1994-95	1995-96
	(millions of dollars)			
Deficit	-1,459	-992	-15,940	-14,677
Loans, investments, and advances				
Crown corporations	135	-159	299	177
Other	-16	744	-169	143
Total	119	585	130	320
Specified purpose accounts				
Canada Pension Plan Account	-167	172	723	864
Superannuation accounts	2,267	2,393	3,929	4,122
Other	47	90	60	105
Total	2,147	2,655	4,712	5,091
Other transactions	-2,448	-2,088	-5,859	-3,248
Total non-budgetary transactions	-182	1,152	-1,017	2,163
Financial Requirements (excluding foreign exchange transactions)	-1,641	160	-16,957	-12,514

Table 5

Financial requirements, foreign exchange and unmatured debt transactions

	September		April to September	
	1994	1995	1994-95	1995-96
	(millions of dollars)			
Financial requirements (excluding foreign exchange transactions)	-1,641	160	-16,957	-12,514
Foreign exchange transactions				
Net international reserves	-588	2,394	-2,541	-2,578
Unmatured debt transactions payable in foreign currencies	-1,485	-131	3,583	-655
Total	-2,073	2,263	1,042	-3,233
Total financial requirements	-3,714	2,423	-15,915	-15,747
Unmatured debt transactions				
Marketable bonds	1,915	1,100	20,814	22,659
Canada Savings Bonds	-258	-265	-3,121	-2,113
Treasury bills	1,950	1,400	-700	3,250
Other	-1,484	-461	998	-4,131
Subtotal	2,121	1,774	17,991	19,665
<i>Less:</i>				
Government's holding of unmatured debt	115	128	802	825
Unmatured debt transactions payable in foreign currency	1,485	131	-3,583	655
Subtotal	1,600	259	-2,781	1,480
Total unmatured debt transactions payable in Canadian dollars	3,721	2,033	15,210	21,145
Change in cash balance	7	4,456	-705	5,398

Table 6

Cash, unmatured debt and debt balances: at September 30

	1994	1995
	(millions of dollars)	
Cash balances at end of period		
In Canadian dollars	1,406	7,115
In foreign currencies	25	176
Total cash balance	1,431	7,291
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	221,486	244,483
Canada Savings Bonds	28,210	29,273
Treasury bills	165,300	167,700
Other	3,686	3,934
Sub-total	418,682	445,390
Less:		
Government's holdings of unmatured debt	174	169
Total	418,508	445,221
Payable in foreign currencies		
Marketable bonds	7,792	11,797
Notes and loans	0	0
Canada bills	6,459	4,469
Sub-total	14,251	16,268
Less:		
Government's holdings of unmatured debt	0	0
Total unmatured debt	432,759	461,487

As a result, financial requirements, excluding foreign exchange transactions, amounted to \$12.5 billion in the first six months of 1995-96, down \$4.4 billion from that recorded in the same period of 1994-95.

The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. It fulfils this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure on the currency.

In the first six months of 1995-96, foreign exchange transactions provided a net requirement of funds amounting to \$3.2 billion, compared to a net source of funds amounting to \$1.0 billion in the comparable period of 1994-95.

As a result, total financial requirements, including foreign exchange transactions, were \$15.7 billion in the first six months of 1995-96, down \$0.2 from the net requirement in the same period last year.

To finance these requirements, the Government borrows from the private sector and/or draws down its cash reserves. Total borrowings from the private sector (unmatured debt transactions) amounted to

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Table 7

Debt servicing and reduction account

	1991-92	1992-93	1993-94	1994-95	April to September 1995-96
	(millions of dollars)				
Gross GST collected	29,564	30,516	32,652	36,715	17,288
<i>Less:</i>					
Refunds and rebates	11,330	12,138	14,271	17,112	9,021
Quarterly low-income tax credit	2,262	2,503	2,685	2,816	1,418
Net GST	15,168	14,868	15,696	16,787	6,849
GST penalties and interest received	19	71	90	129	
Gains from wind-up of interest in Crown corporations/disposal of shares in Crown corporations	2	110			
Gifts to the Crown	0.4	0.1	0.2	0.5	
Proceeds to the DSRA	15,190	15,050	15,786	16,916	6,849

Figures for 1991-92, 1992-93, 1993-94, and 1994-95 are from the Public Accounts of Canada.

\$21.1 billion in the six months of 1995-96, up \$5.9 billion from that borrowed on financial markets during the same period last year. Cash balances, as of September 30, 1995, stood at \$7.3 billion, compared to \$1.4 billion at September 30, 1994.

The debt servicing and reduction account

In June 1992, legislation to establish the Debt Servicing and Reduction Account received Royal Assent. As a result, effective April 1, 1991,

all Goods and Services Tax revenue net of the applicable input tax credits, rebates, and the low-income credit, along with the net proceeds from the sale of Crown corporations and gifts to the Crown identified for debt reduction must, by law, go directly to the Debt Servicing and Reduction Account. The funds in this Account can only be used to pay the cost of servicing the public debt and ultimately to reduce the debt. The Account is audited on an annual basis by the Auditor General of Canada.

The information in this Monitor is based on preliminary financial results for the quarter ended March 31, 1995. For further information contact: P. DeVries at (613) 996-7397. Cet imprimé est également offert en français.

November 1995



Department of Finance
Canada

Ministère des Finances
Canada

The Fiscal Monitor

A Publication of the Department of Finance



Financial results for October 1995

Deficit declines \$0.4 billion in October 1995

The deficit in October 1995 was estimated at \$2.9 billion, down \$0.4 billion from October 1994.

- The year-over-year improvement in the deficit was attributable to higher budgetary revenues (up \$0.5 billion or 5.3 per cent) and lower program spending (down \$0.3 billion or 2.8 per cent). Part of this improvement was offset by higher public debt charges (up \$0.4 billion or 11.7 per cent) from year earlier levels.
- The increase in budgetary revenues was largely attributable to higher personal income tax (up 5.1 per cent) and Goods and Services Tax (GST) (up 27.6 per cent) collections. The increase in GST collections primarily reflected timing factors, related to the receipt of collections and the payment of input tax credits.
- The decline in program spending primarily reflected the impact of actions announced in the 1995 budget.

Deficit for April to October 1995 down by \$1.6 billion

Over the first seven months of the fiscal year, the deficit, at \$17.6 billion, was \$1.6 billion lower than in the same period in 1994-95.

- Budgetary revenues were up \$3.6 billion or 5.4 per cent, on a year-over-year basis. This increase in collections reflected strong growth in income taxes (up 8.4 per cent), dampened by a slight decline in sales and excise tax collections (down 0.3 per cent).
- Program spending declined by \$1.6 billion or 2.6 per cent, as lower expenditures were reported among all major components with the exception of transfers to other levels of government.
- Public debt charges were up by \$3.6 billion, or 15.3 per cent. This increase reflects both the increase in the stock of debt and higher interest rates since May 1994.

As noted in the *Economic and Fiscal Update*, the deficit target for 1995-96 of \$32.7 billion remains on track. Economic growth is expected to be weaker than projected in the 1995 budget. However, interest rates, on average, have been substantially below the budget assumptions.



The Fiscal Monitor

Table 1

Summary statement of financial transactions¹

	October		April to October	
	1994	1995	1994-95	1995-96
(in millions of dollars)				
Budgetary transactions				
Revenues	9,567	10,104	67,163	70,787
Program spending	-9,436	-9,197	-62,685	-61,046
Operating balance	131	907	4,478	9,741
Public debt charges	-3,445	-3,848	-23,733	-27,359
Deficit	-3,314	-2,941	-19,255	-17,618
Non-budgetary transactions	1,598	1,349	579	3,511
Financial requirements (excluding foreign exchange transactions)	-1,716	-1,592	-18,676	-14,107
Foreign exchange transactions	-618	3,010	424	-223
Financial requirements	-2,334	1,418	-18,252	-14,330
Unmatured debt transactions	2,126	776	17,335	21,920

Note: Data compiled by the Receiver General of Canada.

¹ (+) indicates a source of funds, while (-) indicates a requirement for funds.

Table 2

Detailed statement of budgetary transactions – Revenues

	October		April to October	
	1994	1995	1994-95	1995-96
(in millions of dollars)				
Income taxes				
Personal income tax	4,494	4,721	32,292	34,665
Corporate income tax	839	832	5,541	6,268
Other income tax revenue	129	154	929	1,079
Total income tax	5,462	5,707	38,762	42,012
Unemployment insurance contributions	1,692	1,673	11,599	11,706
Excise taxes and duties				
Goods and Services Tax	1,161	1,482	8,311	8,331
Customs import duties	321	257	2,039	1,684
Sales and excise taxes	612	605	3,726	4,015
Total excise taxes/duties	2,094	2,344	14,076	14,030
Total tax revenues	9,248	9,724	64,437	67,748
Non-tax revenues	319	380	2,726	3,039
Total budgetary revenues	9,567	10,104	67,163	70,787

Table 3

Detailed statement of budgetary transactions – Expenditures

	October		April to October	
	1994	1995	1994-95	1995-96
(in millions of dollars)				
Transfer payments to:				
Persons				
Elderly benefits	1,717	1,770	11,906	12,158
Unemployment insurance benefits	1,008	938	8,258	7,045
Other	120	112	833	817
Total	2,845	2,820	20,997	20,020
Other levels of government				
Established Programs Financing	1,043	953	5,588	5,566
Fiscal transfers	786	949	5,850	5,983
Canada Assistance Plan	712	842	5,142	5,409
Total	2,541	2,744	16,580	16,958
Other				
Agricultural	25	12	290	197
Indians and Inuit	201	242	2,055	2,222
Regional development	75	51	180	196
Science and technology	153	180	650	643
International assistance	278	155	1,050	844
Other	589	433	2,980	2,774
Total	1,321	1,073	7,205	6,876
Total transfers	6,707	6,637	44,782	43,854
Payments to Crown corporations	346	613	2,528	2,745
Operating and capital expenditures				
Defence	870	841	5,540	5,327
All other departmental expenditures	1,513	1,106	9,835	9,120
Total	2,383	1,947	15,375	14,447
Total program spending	9,436	9,197	62,685	61,046
Public debt charges	3,445	3,848	23,733	27,359
Total budgetary expenditures	12,881	13,045	86,418	88,405

Table 4

Non-budgetary transactions

	October		April to October	
	1994	1995	1994-95	1995-96
(in millions of dollars)				
Loans, investments and advances				
Crown corporations	24	75	323	252
Other	-14	884	-183	1,027
Total	10	959	140	1,279
Specified purpose accounts				
Canada Pension Plan Account	246	494	969	1,358
Superannuation accounts	-125	-178	3,804	3,943
Other	-48	-138	10	-33
Total	73	178	4,783	5,268
Other transactions	1,515	212	-4,344	-3,036
Total non-budgetary transactions	1,598	1,349	579	3,511

Table 5

Foreign exchange and unmatured debt transactions

	October		April to October	
	1994	1995	1994-95	1995-96
(in millions of dollars)				
Foreign exchange transactions				
Net international reserves	393	3,201	-2,148	623
Unmatured debt transactions payable in foreign currencies	-1,011	-191	2,572	-846
Total	-618	3,010	424	-223
Unmatured debt transactions				
Marketable bonds	-700	1,548	20,114	24,206
Canada Savings Bonds	-374	-424	-3,495	-2,537
Treasury bills	3,350	-	2,650	3,250
Other	-1,205	-577	-207	-4,708
Subtotal	1,071	547	19,062	20,211
<i>Less:</i>				
Government's holding of unmatured debt	44	38	845	863
Unmatured debt transactions payable in foreign currencies	1,011	191	-2,572	846
Subtotal	1,055	229	-1,727	1,709
Total unmatured debt transactions payable in Canadian dollars	2,126	776	17,335	21,920

Table 6

Cash, unmatured debt and debt balances

	at October 31	
	1994	1995
(in millions of dollars)		
Cash balances at end of period		
In Canadian dollars	1,215	9,330
In foreign currencies	7	153
Total cash balance	1,222	9,483
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	220,786	246,030
Canada Savings Bonds	27,837	28,849
Treasury bills	168,650	167,700
Other	3,492	3,548
Subtotal	420,765	446,127
<i>Less:</i>		
Government's holdings of unmatured debt	131	131
Total	420,634	445,996
Payable in foreign currencies		
Marketable bonds	7,792	11,797
Notes and loans	0	0
Canada bills	5,448	4,278
Subtotal	13,240	16,075
<i>Less:</i>		
Government's holdings of unmatured debt	0	0
Total unmatured debt	433,874	462,071



The Fiscal Monitor

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Financial results for November 1995

Deficit Declines \$1.1 billion in November 1995

The deficit in November 1995 was estimated at \$1.6 billion, down \$1.1 billion from November 1994.

- The year-over-year improvement in the deficit was largely attributable to a number of special factors:
 - recoveries from the Canada Pension Plan Account for overpayments relating to taxation year 1994 (\$0.4 billion);
 - the timing of payments to provinces under the Canada Assistance Plan (down \$0.3 billion); and
 - net proceeds from the sale of the government's shares in Canadian National Railways (\$0.2 billion). Proceeds from the sale of government assets in excess of book value are credited to the deficit.
- Budgetary revenues were up \$0.6 billion, or 5.9 per cent, while program spending declined by \$0.9 billion, or 9.4 per cent. Public debt charges were up \$0.4 billion, or 10.8 per cent.

Deficit for April to November 1995 down by \$2.8 billion

Over the first eight months of the fiscal year, the deficit, at \$19.3 billion, was \$2.8 billion lower than in the same period in 1994-95.

- Budgetary revenues were up \$4.2 billion or 5.5 per cent, on a year-over-year basis. This increase in collections reflected strong growth in income taxes (up 8.9 per cent), dampened by a slight decline in unemployment insurance premiums (down 0.2 per cent) and virtually no change in sales and excise tax collections (up 0.1 per cent).
- Program spending declined by \$2.5 billion or 3.5 per cent, as lower expenditures were reported among all major components with the exception of transfers to other levels of government and payments to Crown corporations.
- Public debt charges were up by \$4.0 billion, or 14.7 per cent. This increase reflects both the increase in the stock of debt and the increase in interest rates from the lows in short-term rates in mid-1994. However, the year-over-year increase in public debt charges has been growing more slowly in recent months due to the general downward trend in interest rates witnessed since April 1995.

As noted in the *Economic and Fiscal Update*, the deficit target for 1995-96 of \$32.7 billion remains on track. Economic growth is expected to be weaker than projected in the 1995 budget. However, interest rates, on average, have been substantially below the budget assumptions.



The Fiscal Monitor

Table 1

Summary statement of financial transactions¹

	November		April to November	
	1994	1995	1994-95	1995-96
(in millions of dollars)				
Budgetary transactions				
Revenues	10,229	10,828	77,392	81,616
Program spending	-9,541	-8,646	72,226	-69,691
Operating balance	688	2,182	5,166	11,925
Public debt charges	-3,452	-3,824	-27,185	-31,184
Deficit	-2,764	-1,642	-22,019	-19,259
Non-budgetary transactions	781	-189	1,361	3,321
Financial requirements (excluding foreign exchange transactions)	-1,983	-1,831	-20,658	-15,938
Foreign exchange transactions	38	-1,642	463	-1,864
Financial requirements	-1,945	-3,473	-20,195	-17,802
Unmatured debt transactions	1,981	2,164	19,317	24,085

Note: Data compiled by the Receiver General of Canada.

¹ (+) indicates a source of funds, while (-) indicates a requirement for funds.

Table 2

Detailed statement of budgetary transactions – Revenues

	November		April to November	
	1994	1995	1994-95	1995-96
(in millions of dollars)				
Income taxes				
Personal income tax	4,566	5,119	36,858	39,784
Corporate income tax	979	1,080	6,520	7,348
Other income tax revenue	115	177	1,044	1,256
Total income tax	5,660	6,376	44,422	48,388
Unemployment insurance contributions	1,406	1,275	13,005	12,981
Excise taxes and duties				
Goods and Services Tax	1,801	1,934	10,112	10,266
Customs import duties	316	234	2,355	1,919
Sales and excise taxes	595	607	4,321	4,621
Total excise taxes/duties	2,712	2,775	16,788	16,806
Total tax revenues	9,778	10,426	74,215	78,175
Non-tax revenues	451	402	3,177	3,441
Total budgetary revenues	10,229	10,828	77,392	81,616

Table 3

Detailed statement of budgetary transactions – Expenditures

	November		April to November	
	1994	1995	1994-95	1995-96
(in millions of dollars)				
Transfer payments to:				
Persons				
Elderly benefits	1,730	1,772	13,637	13,930
Unemployment insurance benefits	1,101	980	9,360	8,025
Other	118	113	951	929
Total	2,949	2,865	23,948	22,884
Other levels of government				
Established Programs Financing	811	832	6,399	6,398
Fiscal transfers	734	781	6,584	6,763
Canada Assistance Plan	780	436	5,922	5,845
Total	2,325	2,049	18,905	19,006
Other				
Agricultural	135	24	424	220
Indians and Inuit	223	244	2,279	2,467
Regional development	36	72	215	268
Science and technology	98	86	748	729
International assistance	126	132	1,176	976
Other	491	408	3,471	3,182
Total	1,109	966	8,313	7,842
Total transfers	6,383	5,880	51,166	49,732
Payments to Crown corporations	344	229	2,872	2,975
Operating and capital expenditures				
Defence	990	856	6,530	6,183
All other departmental expenditures	1,824	1,681	11,658	10,801
Total	2,814	2,537	18,188	16,984
Total program spending	9,541	8,646	72,226	69,691
Public debt charges	3,452	3,824	27,185	31,184
Total budgetary expenditures	12,993	12,470	99,411	100,875

Table 4

Non-budgetary transactions

	November		April to November	
	1994	1995	1994-95	1995-96
(in millions of dollars)				
Loans, investments and advances				
Crown corporations	134	2,376	456	2,628
Other	-4	-1,242	-187	-216
Total	130	1,134	270	2,412
Specified purpose accounts				
Canada Pension Plan Account	-312	-1,151	657	207
Superannuation accounts	-66	-162	3,738	3,781
Other	56	190	67	158
Total	-322	-1,123	4,462	4,146
Other transactions	973	-200	-3,371	-3,237
Total non-budgetary transactions	781	-189	1,361	3,321

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Table 5

Foreign exchange and unmatured debt transactions

	November		April to November	
	1994	1995	1994-95	1995-96
(in millions of dollars)				
Foreign exchange transactions				
Net international reserves	775	-791	-1,372	-168
Unmatured debt transactions payable in foreign currencies	-737	-851	1,835	-1,696
Total	38	-1,642	463	-1,864
Unmatured debt transactions				
Marketable bonds	3,300	2,400	23,414	26,606
Canada Savings Bonds	5,963	3,680	2,469	1,143
Treasury bills	-6,050	-3,800	-3,400	-550
Other	-738	379	-945	-4,327
Subtotal	2,475	2,659	21,538	22,872
<i>Less:</i>				
Government's holding of unmatured debt	-1,231	-1,346	-386	-483
Unmatured debt transactions payable in foreign currencies	737	851	-1,835	1,696
Subtotal	-494	-495	-2,221	1,213
Total unmatured debt transactions payable in Canadian dollars	1,981	2,164	19,317	24,085

Table 6

Cash, unmatured debt and debt balances

	at November 30	
	1994	1995
(in millions of dollars)		
Cash balances at end of period		
In Canadian dollars	1,188	7,205
In foreign currencies	72	971
Total cash balance	1,260	8,176
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	224,086	249,130
Canada Savings Bonds	33,800	32,529
Treasury bills	162,600	163,900
Other	3,491	4,079
Subtotal	423,977	449,638
<i>Less:</i>		
Government's holdings of unmatured debt	1,351	1,477
Total	422,626	448,161
Payable in foreign currencies		
Marketable bonds	7,792	11,097
Notes and loans	0	0
Canada bills	4,711	4,127
Subtotal	12,503	15,224
<i>Less:</i>		
Government's holdings of unmatured debt	0	0
Total unmatured debt	435,129	463,385



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Highlights of financial results for December 1995

Surplus of \$148 million recorded in December 1995

A surplus of \$148 million was recorded in December 1995. On a year-over-year basis, this was an improvement of \$504 million, as a deficit of \$356 million was recorded in December 1994.

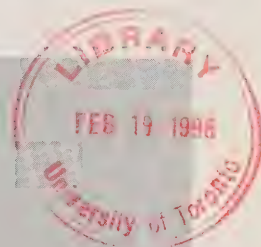
- This was the first monthly surplus since March 1992.
- The year-over-year improvement in the government's financial position was attributable to higher budgetary revenues (up 4.5 per cent) and lower program spending (down 2.7 per cent). As in every month of this fiscal year, part of this improvement was offset by higher public debt charges, up 7.8 per cent from year earlier levels.

Deficit for April to December 1995 down by \$3.3 billion

Over the first nine months of the fiscal year, the deficit, at \$19.1 billion, was \$3.3 billion lower than in the same period in 1994-95.

- Budgetary revenues were up \$4.8 billion or 5.3 per cent, on a year-over-year basis. This increase in collections reflected strong growth in income taxes (up 9.3 per cent), dampened by a decline in unemployment insurance premiums (down 2.3 per cent) and in sales and excise tax collections (down 1.3 per cent).
- Program spending declined by \$2.8 billion or 3.4 per cent, as lower expenditures were reported among all major components with the exception of transfers to other levels of government and payments to Crown corporations.
- Public debt charges were up by \$4.3 billion, or 13.9 per cent. This increase reflects both the increase in the stock of debt and higher interest rates since May 1994.

The financial results to date suggest that the final deficit outcome for 1995-96 is on track to meeting the deficit target of \$32.7 billion. As noted in the *Economic and Fiscal Update*, economic growth is expected to be weaker than projected in the 1995 *Budget*. However, interest rates, on average, have been substantially below the assumptions, thereby offsetting the impact of lower growth on the deficit. The final deficit outcome for 1995-96 will be dependant upon economic developments over the balance of the year, as well as end-of-year accounting adjustments.



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Table 1

Summary statement of transactions

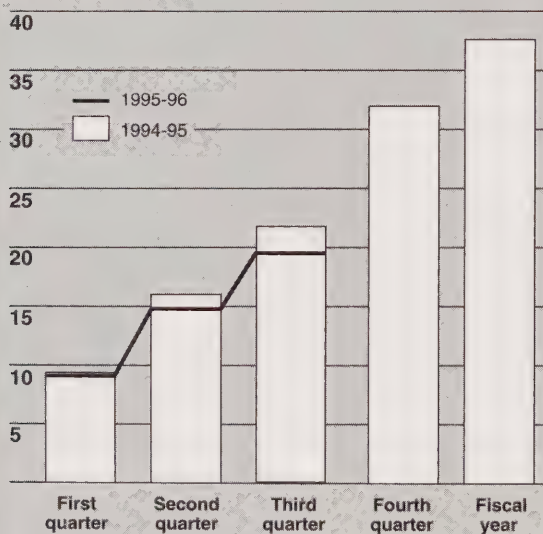
	December		April to December	
	1994	1995	1994-95	1995-96
(millions of dollars)				
Budgetary transactions				
Revenues	12,391	12,946	89,783	94,562
Program spending	-9,006	-8,764	-81,237	-78,457
Operating surplus	3,385	4,182	8,546	16,105
Public debt charges	-3,741	-4,034	-30,921	-35,216
Deficit/Surplus	-356	148	-22,375	-19,111
Non-budgetary transactions	-1,046	437	317	3,758
Financial requirements/source (excluding foreign exchange transactions)	-1,402	585	-22,058	-15,353
Foreign exchange transactions	4,474	1,444	4,936	-422
Total financial requirements	3,072	2,029	-17,122	-15,775
Unmatured debt transactions	-1,102	-2,820	18,217	21,265

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

The federal deficit 1994-95 and 1995-96

Year to date

billions of dollars



Budgetary revenues up in first three quarters

On a year-over-year basis, budgetary revenues over the April 1995 to December 1995 period, increased by \$4.8 billion (5.3 per cent). This increase was largely attributable to higher income tax collections, up \$4.8 billion. Declines in unemployment insurance premiums and excise taxes and duties were offset by higher non-tax revenues.

Personal income tax collections were up \$3.5 billion, or 8.2 per cent, on a year-over-year. This reflected a combination of higher deductions from employment income, increased instalment payments, as well as higher taxes paid on filing relating to the 1994 taxation year.

Corporate income tax collections increased by \$1.2 billion in the first nine months of 1995-96, attributable to the continued strength in corporate profits.

Table 2

Budgetary revenues

	December		April to December		Per cent change
	1994	1995	1994-95	1995-96	
	(millions of dollars)				(%)
Income taxes					
Personal income tax	6,101	6,681	42,960	46,465	8.2
Corporate income tax	1,075	1,411	7,595	8,760	15.3
Other	209	148	1,253	1,405	12.1
Total income tax	7,385	8,240	51,808	56,630	9.3
Unemployment insurance contributions	1,651	1,340	14,656	14,320	-2.3
Excise taxes and duties					
Goods and Services Tax	1,771	1,472	11,883	11,737	-1.2
Customs import duties	362	261	2,717	2,179	-19.8
Other excise taxes/duties	542	679	4,861	5,300	9.0
Total excise taxes and duties	2,674	2,412	19,460	19,216	-1.3
Total tax revenue	11,711	11,992	85,925	90,166	4.9
Non-tax revenue	680	954	3,858	4,396	13.9
Total budgetary revenues	12,391	12,946	89,783	94,562	5.3

Unemployment insurance premium contributions declined by \$0.3 billion, primarily reflecting transfers of funds from the Unemployment Insurance Account to personal income tax collections due to overpayments to the Account for taxation year 1994.

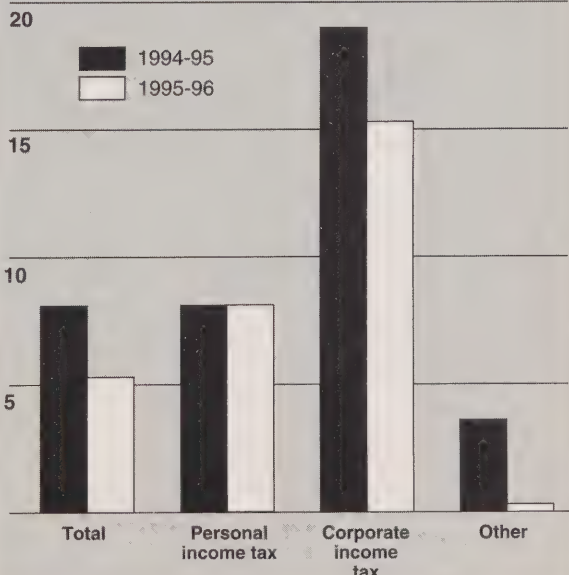
Total excise taxes and duties declined \$0.2 billion, as lower Goods and Services Tax (GST) and customs import duties collections more than offset an increase in other excise taxes and duties.

- On a gross basis, GST collections were up 4.9 per cent, with most of the gain resulting from GST paid at customs. GST paid at retail was up 2.6 per cent, in line with the growth in retail sales. However, refunds during the first nine months were up 12.5 per cent, primarily reflecting the composition of gross GST collections. As a result, net GST collections in the first nine months of 1995-96 were 1.2 per cent below the comparable 1994-95 level.

Budgetary revenues 1994-95 and 1995-96

April to December
Year-over-year growth

per cent change



- Customs import duties declined 19.8 per cent, in part reflecting reductions in tariffs under the Canada-United States Free Trade Agreement.
- Other excise taxes and duties were up 9.0 per cent, largely due to the increase in gasoline and tobacco tax rates introduced in February 1995.

Non-tax revenue was up \$0.5 billion, or 13.9 per cent, in part reflecting the net gain to the government from its sale of Petro Canada shares and Canadian National Railways. Proceeds from the sale of government assets in excess of book value are credited to the deficit.

Budgetary expenditures higher due to higher interest rates

In the first nine months of 1995-96, total budgetary expenditures were up 1.4 per cent, or \$1.5 billion, on a year-over-year basis. Public debt charges, the largest single component of budgetary expenditures, increased by \$4.3 billion, or 13.9 per cent.

- The increase in public debt charges reflects both the increase in the stock of debt and higher interest rates since May 1994.
- However, in recent months, the year-over-year increase has been slowing. With the recent declines in interest rates, the growth in public debt charges over the balance of the year should slow further on a year-over-year basis.

Program spending lower

Program spending declined by \$2.7 billion, or 3.4 per cent in the April 1995 to December 1995 period, compared to the same period in 1994-95. This decline primarily reflects:

- lower unemployment insurance benefits, down 12.5 per cent, reflecting a decline in the number of persons eligible for unemployment insurance benefits and the impact of recent budget measures;

- lower spending on defence, and operating and capital by the non-defence departments, reflecting the impact of restraint measures; and
- lower transfer payments in the "other" component, primarily for agriculture and international assistance, again largely reflecting the impact of restraint measures. The increase in regional development is due to spending under the Canada Infrastructure Works Agreements.

In contrast, payments to the elderly were up 2.3 per cent, reflecting increases in the eligible population and higher monthly benefits as the latter are indexed to quarterly changes in the Consumer Price Index. Transfers to provinces, including Equalization, Established Programs Financing and Canada Assistance Plan, were up slightly. Finally, payments to Crown corporations were up, primarily reflecting the timing of payments.

Budgetary expenditures 1994-95 and 1995-96

April to December
Year-over-year growth

per cent change

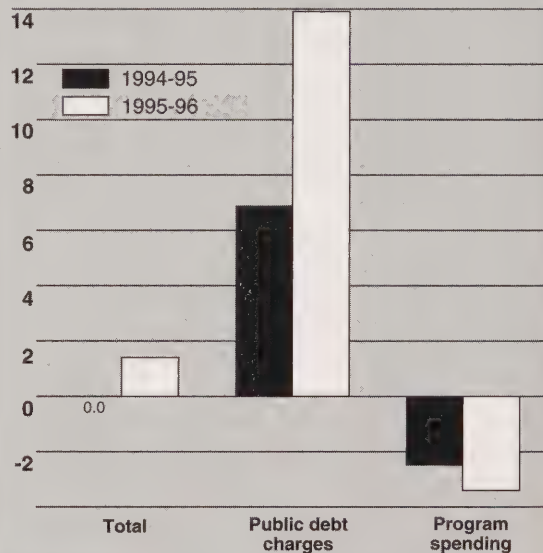


Table 3

Budgetary expenditures

	December		April to December		Per cent change
	1994	1995	1994-95	1995-96	
	(millions of dollars)				(%)
Transfer payments to:					
Persons					
Elderly benefits	1,714	1,773	15,351	15,703	2.3
Unemployment insurance benefits	1,119	1,141	10,478	9,167	-12.5
Veterans' pensions/allowances	123	109	1,074	1,039	-3.3
Total	2,956	3,023	26,903	25,909	-3.7
Other levels of government					
Established Programs Financing	811	831	7,210	7,230	0.3
Fiscal transfers	718	804	7,302	7,568	3.6
Canada Assistance Plan	380	347	6,302	6,192	-1.7
Total	1,909	1,982	20,814	20,990	0.8
Other					
Agricultural subsidies	123	109	552	330	-40.5
Indian and Inuit programs	262	273	2,540	2,740	7.1
Regional development	46	54	262	322	23.2
Science and Technology	194	179	942	908	-3.6
International assistance	112	114	1,288	1,091	-15.3
Other	724	464	4,195	3,646	-13.8
Total	1,461	1,193	9,779	9,037	-7.6
Total transfers	6,326	6,198	57,496	55,936	-2.7
Payments to Crown corporations					
Canadian Broadcasting Corporation	96	77	888	857	-2.9
Canada Mortgage and Housing Corporation	228	201	1,335	1,393	4.3
Other	113	125	1,085	1,128	4.0
Total	437	403	3,308	3,378	2.1
Operating and capital expenditures					
Defence	810	747	7,341	6,931	-5.6
All other departmental expenditures	1,433	1,416	13,092	12,212	-6.7
Total	2,243	2,163	20,433	19,143	-6.3
Total program expenditures	9,006	8,764	81,237	78,457	-3.4
Public debt charges	3,741	4,034	30,921	35,216	13.9
Total budgetary expenditures	12,747	12,798	112,158	113,673	1.4

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Table 4

The deficit and financial requirements

	December		April to December	
	1994	1995	1994-95	1995-96
	(millions of dollars)			
Deficit/Surplus	-356	148	-22,375	-19,111
Loans, investments and advances				
Crown corporations	268	382	726	3,010
Other	-184	1	-372	-215
Total	84	383	354	2,795
Specified purpose accounts				
Canada Pension Plan Account	-372	-366	286	-160
Superannuation accounts	2,311	2,440	6,049	6,222
Other	52	-31	119	127
Total	1,991	2,043	6,454	6,189
Other transactions	-3,121	-1,989	-6,491	-5,226
Total non-budgetary transactions	-1,046	437	317	3,758
Financial requirements (excluding foreign exchange transactions)	-1,402	585	-22,058	-15,353

Table 5

Financial requirements, foreign exchange and unmatured debt transactions

	December		April to December	
	1994	1995	1994-95	1995-96
	(millions of dollars)			
Financial requirements (-) / Source (+) (excluding foreign exchange)	-1,402	585	-22,058	-15,353
Foreign exchange transactions				
Net international reserves	3,615	1,457	2,242	1,288
Unmatured debt transactions payable in foreign currencies	859	-13	2,694	-1,710
Total	4,474	1,444	4,936	-422
Total financial requirements/Source	3,072	2,029	-17,122	-15,775
Unmatured debt transactions				
Marketable bonds	2,216	950	25,630	27,556
Canada Savings Bonds	-289	-171	2,180	972
Treasury bills	-3,050	-3,800	-6,450	-4,350
Other	858	-14	-86	-4,342
Subtotal	-265	-3,035	21,274	19,836
<i>Less:</i>				
Government's holding of unmatured debt	22	202	-363	-281
Unmatured debt transactions payable in foreign currency	-859	13	-2,694	1,710
Subtotal	-837	215	-3,057	1,429
Total unmatured debt transactions payable in Canadian dollars	-1,102	-2,820	18,217	21,265
Change in cash balance	1,970	-791	1,095	5,490

Table 6

Cash, unmatured debt and debt balances: at December 31

	1994	1995
	(millions of dollars)	
Cash balances at end of period		
In Canadian dollars	3,145	6,405
In foreign currencies	87	981
Total cash balance	3,232	7,386
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	226,302	250,080
Canada Savings Bonds	33,511	32,359
Treasury bills	159,550	160,100
Other	3,491	4,078
Subtotal	422,854	446,617
Less:		
Government's holdings of unmatured debt	1,328	1,275
Total	421,526	445,342
Payable in foreign currencies		
Marketable bonds	7,792	11,097
Notes and loans	0	0
Canada bills	5,570	4,115
Subtotal	13,362	15,212
Less:		
Government's holdings of unmatured debt	0	0
Total unmatured debt	434,888	460,554

Financial requirements lower

Financial requirements measure the amount by which cash going out from the Government exceeds cash coming in. Financial requirements – for the fiscal year as a whole – are lower than the deficit, as they also include the net source of funds from non-budgetary transactions. The latter includes transactions in loans, investments and advances, government employees' pension accounts, other specified accounts, and other financial assets and liabilities.

Non-budgetary transactions in the April 1995 to December 1995 period resulted in a net source of funds amounting to \$3.8 billion, compared to a net source of \$0.3 billion recorded in the corresponding period of 1994-95. Part of the higher net source of funds in 1995-96 was attributable to the cash proceeds resulting from the sale of Petro Canada and Canadian National Railways.

As a result, financial requirements, excluding foreign exchange transactions, amounted to \$15.4 billion in the first nine months of 1995-96, down \$6.7 billion from that recorded in the same period of 1994-95.

The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. It fulfils this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure on the currency.

In the nine months of 1995-96, foreign exchange transactions provided a net requirement of funds amounting to \$0.4 billion, compared to a net source of funds amounting to \$4.9 billion in the comparable period of 1994-95.

Table 7

Debt Servicing and Reduction Account

	1991-92	1992-93	1993-94	1994-95	April to December 1995-96
	(millions of dollars)				
Gross GST collected	29,564	30,516	32,652	36,715	27,225
Less:					
Refunds and rebates	11,330	12,138	14,271	17,112	13,373
Quarterly low-income tax credit	2,262	2,503	2,685	2,816	2,115
Net GST	15,168	14,868	15,696	16,787	11,737
GST penalties and interest received	19	71	90	129	
Gains from wind-up of interest in Crown Corporations/disposal of shares in Crown corporations	2	110			
Gifts to the Crown	0.4	0.1	0.2	0.5	
Proceeds to the DSRA	15,190	15,050	15,786	16,916	11,737

Figures for 1991-92, 1992-93, 1993-94 and 1994-95 are from the *Public Accounts of Canada*.

As a result, total financial requirements, including foreign exchange transactions, were \$15.8 billion in the first nine months of 1995-96, down \$1.3 from the net requirement in the same period last year.

To finance these requirements, the government borrows from the private sector and/or draws down its cash reserves. Total borrowings from the private sector (unmatured debt transactions) amounted to \$21.3 billion in the nine months of 1995-96, up \$3.0 billion from that borrowed on financial markets during the same period last year. Cash balances, as of December 31, 1995, stood at \$7.4 billion, compared to \$3.2 billion at December 31, 1994.

The Debt Servicing and Reduction Account

In June 1992, legislation to establish the Debt Servicing and Reduction Account received Royal Assent. As a result, effective April 1, 1991, all Goods and Services Tax revenue net of the applicable input tax credits, rebates, and the low-income credit, along with the net proceeds from the sale of Crown corporations and gifts to the Crown identified for debt reduction must, by law, go directly to the Debt Servicing and Reduction Account. The funds in this Account can only be used to pay the cost of servicing the public debt and ultimately to reduce the debt. The Account is audited on an annual basis by the Auditor General of Canada.

For further information contact: P. DeVries at 996-7397.

Cet imprimé est également offert en français.

February 1996



The Fiscal Monitor

A Publication of the Department of Finance



Financial results for January 1996

Deficit Declines \$1.1 billion in January 1996

The deficit in January 1996 was estimated at \$1.9 billion, down \$1.1 billion from January 1995.

- The year-over-year improvement in the deficit was attributable to continued strength in budgetary revenues and restraint in program spending.
- Budgetary revenues were up 12.3 per cent, or \$1.2 billion.
 - Corporate income tax collections were up \$0.5 billion, reflecting continued strength in corporate profits;
 - Goods and Services Tax collections were up \$0.3 billion;
 - Non-tax revenues were up \$0.2 billion, due to repayments related to previous years' spending; and
 - Personal income tax collections were up \$0.2 billion, due to recoveries from the Canada Pension Plan Account for over-payments relating to taxation year 1994.

Deficit for April 1995 to January 1996 down by \$4.3 billion

Over the ten months of the fiscal year, the deficit, at \$21.0 billion, was \$4.3 billion lower than in the same period in 1994-95.

- Budgetary revenues were up \$6.0 billion or 6.0 per cent, on a year-over-year basis. This increase in collections reflected strong growth in income taxes (up 9.4 per cent), dampened by a slight decline in unemployment insurance premiums (down 1.6 per cent) and virtually no change in sales and excise tax collections (up 0.1 per cent).
- Program spending declined by \$2.9 billion or 3.2 per cent, as lower expenditures were reported among all major components with the exception of transfers to other levels of government and payments to Crown corporations.
- Public debt charges were up by \$4.5 billion, or 13.0 per cent. This increase reflects both the increase in the stock of debt and the higher interest rates from March 1995 to October 1995 over the corresponding period in 1994. However, the year-over-year increase in public debt charges has been moderating in recent months due to the general downward trend in interest rates since April 1995.

As noted in the March 1996 Budget, the deficit target for 1995-96 of \$32.7 billion is expected to be met if not bettered. Final deficit results will be released in the Annual Financial Report, scheduled for release in early fall.



The Fiscal Monitor

Table 1

Summary statement of financial transactions¹

	January		April to January	
	1995	1996	1994-95	1995-96
(in millions of dollars)				
Budgetary transactions				
Revenues	9,667	10,854	99,450	105,416
Program spending	-9,033	-8,952	-90,270	-87,407
Operating balance	634	1,902	9,180	18,009
Public debt charges	-3,558	-3,761	-34,479	-38,978
Deficit	-2,924	-1,859	-25,299	-20,969
Non-budgetary transactions	2,578	2,140	2,892	5,899
Financial requirements (excluding foreign exchange transactions)	-346	281	-22,407	-15,070
Foreign exchange transactions	218	-3,872	5,154	-4,294
Financial requirements	-128	-3,591	-17,253	-19,364
Unmatured debt transactions	-1,540	-715	16,677	20,551

Note: Data compiled by the Receiver General of Canada.

¹ (+) indicates a source of funds, while (-) indicates a requirement for funds.

Table 2

Detailed statement of budgetary transactions – Revenues

	January		April to January	
	1995	1996	1994-95	1995-96
(in millions of dollars)				
Income taxes				
Personal income tax	5,537	5,700	48,497	52,165
Corporate income tax	901	1,364	8,496	10,123
Other income tax revenue	191	226	1,444	1,631
Total income tax	6,629	7,290	58,437	63,919
Unemployment insurance contributions	1,138	1,226	15,795	15,546
Excise taxes and duties				
Goods and Services Tax	824	1,160	12,707	12,897
Customs import duties	210	157	2,926	2,337
Sales and excise taxes	589	523	5,450	5,822
Total excise taxes/duties	1,623	1,840	21,083	21,056
Total tax revenues	9,390	10,356	95,315	100,521
Non-tax revenues	277	498	4,135	4,895
Total budgetary revenues	9,667	10,854	99,450	105,416

Table 3

Detailed statement of budgetary transactions – Expenditures

	January		April to January	
	1995	1996	1994-95	1995-96
(in millions of dollars)				
Transfer payments to:				
Persons				
Elderly benefits	1,716	1,765	17,066	17,468
Unemployment insurance benefits	1,554	1,508	12,032	10,675
Other	121	119	1,195	1,158
Total	3,391	3,392	30,293	29,301
Other levels of government				
Established Programs Financing	811	831	8,021	8,060
Fiscal transfers	622	761	7,925	8,329
Canada Assistance Plan	309	327	6,611	6,519
Total	1,742	1,919	22,557	22,908
Other				
Agricultural	114	109	667	439
Indians and Inuit	152	178	2,692	2,917
Regional development	47	95	309	417
Science and technology	88	57	1,030	964
International assistance	197	173	1,485	1,263
Other	550	520	4,745	4,167
Total	1,148	1,132	10,928	10,167
Total transfers	6,281	6,443	63,778	62,376
Payments to Crown corporations	439	402	3,747	3,780
Operating and capital expenditures				
Defence	817	811	8,158	7,742
All other departmental expenditures	1,496	1,296	14,587	13,509
Total	2,313	2,107	22,745	21,251
Total program spending	9,033	8,952	90,270	87,407
Public debt charges	3,558	3,761	34,479	38,978
Total budgetary expenditures	12,591	12,713	24,749	126,385

Table 4

Non-budgetary transactions

	January		April to January	
	1995	1996	1994-95	1995-96
(in millions of dollars)				
Loans, investments and advances				
Crown corporations	547	398	1,273	3,408
Other	-220	28	-592	-187
Total	327	426	681	3,221
Specified purpose accounts				
Canada Pension Plan Account	-302	-655	-17	-814
Superannuation accounts	-117	-150	5,933	6,071
Other	20	76	137	203
Total	-399	-729	6,053	5,460
Other transactions	2,650	2,443	-3,842	-2,782
Total non-budgetary transactions	2,578	2,140	2,892	5,899

The Fiscal Monitor

Table 5

Foreign exchange and unmatured debt transactions

	January		April to January	
	1995	1996	1994-95	1995-96
	(in millions of dollars)			
Foreign exchange transactions				
Net international reserves	-3,004	-3,792	-762	-2,504
Unmatured debt transactions payable in foreign currencies	3,222	-80	5,916	-1,790
Total	218	-3,872	5,154	-4,294
Unmatured debt transactions				
Marketable bonds		2,100	25,630	29,656
Canada Savings Bonds	-341	-354	1,839	619
Treasury bills	-1,300	-2,500	-7,750	-6,850
Other	3,222	-147	3,136	-4,489
Subtotal	1,581	-901	22,855	18,936
<i>Less:</i>				
Government's holding of unmatured debt	101	106	-262	-175
Unmatured debt transactions payable in foreign currencies	-3,222	80	-5,916	1,790
Subtotal	-3,121	186	-6,178	1,615
Total unmatured debt transactions payable in Canadian dollars	-1,540	-715	16,677	20,551

Table 6

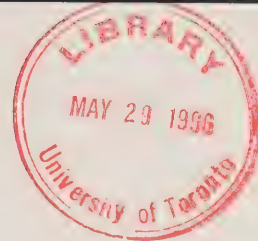
Cash, unmatured debt and debt balances

	at January 31	
	1995	1996
	(in millions of dollars)	
Cash balances at end of period		
In Canadian dollars	1,509	3,032
In foreign currencies	54	47
Total cash balance	1,563	3,079
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	226,302	252,180
Canada Savings Bonds	33,170	32,005
Treasury bills	158,250	157,600
Other	3,491	4,011
Subtotal	421,213	445,796
<i>Less:</i>		
Government's holdings of unmatured debt	1,228	1,169
Total	419,985	444,627
Payable in foreign currencies		
Marketable bonds	7,792	11,097
Notes and loans	0	0
Canada bills	8,792	4,034
Subtotal	16,584	15,131
<i>Less:</i>		
Government's holdings of unmatured debt	0	0
Total unmatured debt	436,569	459,758



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Financial results for February 1996

Deficit declines \$0.3 billion in February 1996

The deficit in February 1996 was estimated at \$2.3 billion, down \$0.3 billion from February 1995.

- The year-over-year improvement in the deficit was attributable to continued strength in budgetary revenues.
- Budgetary revenues were up 5.4 per cent, or \$0.5 billion.
 - Personal income tax collections were up \$0.5 billion, primarily reflecting gains in employment.
 - Corporate income tax collections were up \$0.3 billion, reflecting continued strength in corporate profits.
 - Non-tax revenue was up \$0.3 billion, due to repayments related to previous years' spending.
 - In contrast, Goods and Services Tax collections were down \$0.5 billion, due to the timing of the processing of refunds.
- Program spending increased by 1.3 per cent, or \$0.1 billion, due to timing of transfers to provinces and certain Crown corporations, as well as higher elderly benefit payments.
- Public debt charges advanced by only 3.2 per cent, the lowest year-over-year increase this fiscal year, due to the general downward trend in interest rates witnessed since April 1995.

Deficit for April 1995 to February 1996 down by \$4.6 billion

Over the 11 months of the fiscal year, the deficit, at \$23.3 billion, was \$4.6 billion lower than in the same period in 1994-95.

- Budgetary revenues were up \$6.5 billion or 5.9 per cent, on a year-over-year basis. This increase in collections reflected strong growth in income taxes (up 9.8 per cent), dampened by slight declines in unemployment insurance premiums (down 2.0 per cent) and in excise taxes and duties (down 2.1 per cent).
- Program spending declined by \$2.7 billion or 2.8 per cent, as lower expenditures were reported among all major components with the exception of transfers to other levels of government and payments to Crown corporations.
- Public debt charges were up by \$4.6 billion, or 12.1 per cent. This increase reflects both the increase in the stock of debt and the lagged impact of the higher interest rates over the March 1994 to April 1995 period. However, the year-over-year increase in public debt charges has been moderating in recent months due to the general downward trend in interest rates since April 1995.

As noted in the March 1996 Budget, the deficit target for 1995-96 of \$32.7 billion is expected to be met if not bettered. Final deficit results will be released in the *Annual Financial Report*, scheduled for release in early fall.



Table 5

Foreign exchange and unmatured debt transactions

	February		April to February	
	1995	1996	1994-95	1995-96
	(in millions of dollars)			
Foreign exchange transactions				
Net international reserves	-1,496	948	-2,258	-1,556
Unmatured debt transactions payable in foreign currencies	-266	-388	5,650	-2,178
Total	-1,762	560	3,392	-3,734
Unmatured debt transactions				
Marketable bonds	2,163	-1,449	27,793	28,207
Canada Savings Bonds	-987	-309	852	309
Treasury bills	2,450	2,800	-5,300	-4,050
Other	-267	-479	2,869	-4,010
Subtotal	3,359	1,521	26,214	20,456
<i>Less:</i>				
Government's holding of unmatured debt	118	81	-143	-94
Unmatured debt transactions payable in foreign currencies	266	388	-5,650	2,178
Subtotal	384	469	-5,793	2,084
Total unmatured debt transactions payable in Canadian dollars	3,743	1,990	20,421	22,540

Table 6

Cash, unmatured debt and debt balances

	at February 29	
	1995	1996
	(in millions of dollars)	
Cash balances at end of period		
In Canadian dollars	2,016	5,298
In foreign currencies	226	241
Total cash balance	2,242	5,539
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	228,465	252,062
Canada Savings Bonds	32,183	31,696
Treasury bills	160,700	160,400
Other	3,490	3,479
Subtotal	424,838	447,637
<i>Less:</i>		
Government's holdings of unmatured debt	1,109	1,088
Total	423,729	446,549
Payable in foreign currencies		
Marketable bonds	7,792	9,698
Notes and loans	0	0
Canada bills	8,526	5,045
Subtotal	16,318	14,743
<i>Less:</i>		
Government's holdings of unmatured debt	0	0
Total unmatured debt	440,047	461,292

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The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for March 1996

Deficit \$2.1 billion lower in March 1996

The deficit for March 1996 was estimated at \$1.1 billion, down \$2.1 billion from March 1995.

- This year-over-year improvement was attributable to higher budgetary revenues (up 9.3 per cent) and lower program spending (down 10.5 per cent). Public debt charges were up 3 per cent.

Deficit for April 1995 to March 1996 down by \$6.7 billion

Over the 12-month period, the deficit stood at \$24.4 billion, \$6.7 billion lower than in the same period in 1994-95.

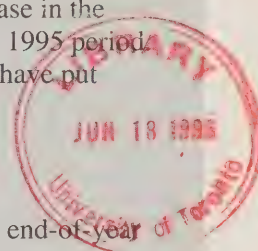
- Budgetary revenues were up \$7.6 billion or 6.3 per cent, on a year-over-year basis. This increase in collections reflected strong growth in income taxes (up 11.6 per cent), dampened by a decline in unemployment insurance premiums (down 2.4 per cent) and in sales and excise tax collections (down 1.4 per cent).
- Program spending was down \$3.9 billion or 3.5 per cent, as lower expenditures were reported among all major components with the exception of transfers to other levels of government and payments to Crown corporations.
- Public debt charges were up by \$4.7 billion, or 11.3 per cent. This reflects both the increase in the stock of debt and the lagged impact of higher interest rates over the March 1994 to April 1995 period. Sluggish economic growth, low inflation and fiscal restraint by all levels of government have put downward pressure on rates, especially short rates.

These are not the final results for 1995-96

These are not the final financial results for fiscal year 1995-96. Still to come are the regular end-of-year accounting adjustments.

- Consistent with government accounting principles, these "end-of-year accounting" adjustments reflect the recording of the costs of goods and services provided to the government prior to the end of March for which no payment was made in 1995-96. Adjustments are also made to budgetary revenues, primarily to reflect cash-in-transit at year end. The end-of-year accounting adjustments also include the impact of specific one-time adjustments relating to liabilities incurred during the course of the fiscal year for which future payments will be required.
- The deficit impact of these "end-of-year accounting" adjustments has ranged from about \$3 billion to \$6.4 billion in recent years.

The final deficit outcome, which will be available in late summer 1996, will be dependant upon the value of these end-of-year accounting adjustments, including the impact of one-time adjustments. However, the financial results to date suggest that the final deficit outcome for 1995-96 could be just below \$30 billion.



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Table 1

Summary statement of transactions

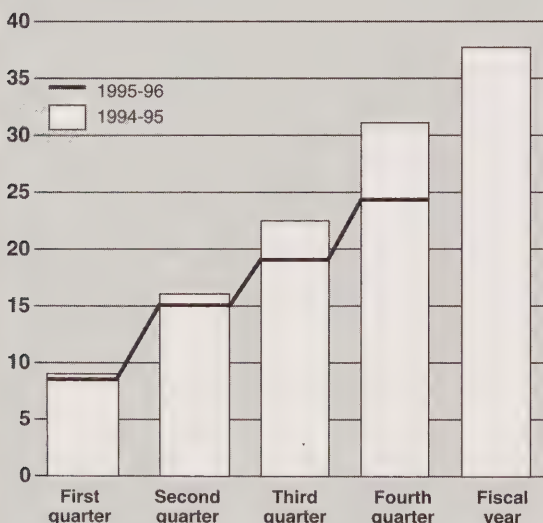
	March		April to March	
	1995	1996	1994-95	1995-96
(millions of dollars)				
Budgetary transactions				
Revenues	11,534	12,611	120,953	128,536
Program spending	-10,835	-9,696	-110,121	-106,239
Operating surplus	699	2,915	10,832	22,297
Public debt charges	-3,874	-3,991	-41,925	-46,654
Deficit/Surplus	-3,175	-1,076	-31,093	-24,357
Non-budgetary transactions	1,262	-677	5,470	7,441
Financial requirements/source (excluding foreign exchange transactions)	-1,913	-1,753	-25,623	-16,916
Foreign exchange transactions	1,442	-1,129	4,835	-4,863
Total financial requirements	-471	-2,882	-20,788	-21,779
Unmatured debt transactions	333	6,102	20,754	28,645

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

The federal deficit 1994-95 and 1995-96

Year to date

billions of dollars



Financial requirements lower in 1995-96

Financial requirements are largely unaffected by the end-of-year accounting adjustments. Financial requirements, excluding foreign exchange transactions, amounted to \$16.9 billion for 1995-96, \$8.7 billion below the final outcome for 1994-95. The 1995-96 requirements were \$3.1 billion below the March 1996 budget estimate.

Budgetary revenues up

On a year-over-year basis, budgetary revenues over the April 1995 to March 1996 period increased by \$7.6 billion (6.3 per cent). This increase was largely attributable to higher income tax collections, up \$8.1 billion. In contrast, both unemployment insurance premiums and excise taxes and duties were lower.

Personal income tax collections were up \$4.8 billion, or 8.7 per cent, on a year-over-year. This reflected a combination of higher deductions from employment income, increased instalment payments, as well as higher taxes paid on filing relating to the 1994 taxation year.

Corporate income tax collections increased by \$2.9 billion, or 23.8 per cent, attributable to the strength in corporate profits witnessed during 1995.

Table 2

Budgetary revenues

	March		April to March		Per cent change
	1995	1996	1994-95	1995-96	
	(millions of dollars)				(%)
Income taxes					
Personal income tax	3,052	3,728	55,631	60,466	8.7
Corporate income tax	2,491	3,459	12,240	15,148	23.8
Other	113	254	1,717	2,034	18.4
Total income tax	5,656	7,441	69,588	77,648	11.6
Unemployment insurance contributions	1,578	1,466	18,938	18,480	-2.4
Excise taxes and duties					
Goods and Services Tax	955	948	15,579	15,299	-1.8
Customs import duties	330	276	3,488	2,805	-19.6
Other excise taxes/duties	503	702	6,491	7,094	9.3
Total excise taxes and duties	1,788	1,926	25,558	25,198	-1.4
Total tax revenue	9,022	10,833	114,084	121,326	6.3
Non-tax revenue	2,512	1,778	6,869	7,210	5.2
Total budgetary revenues	11,534	12,611	120,953	128,536	6.3

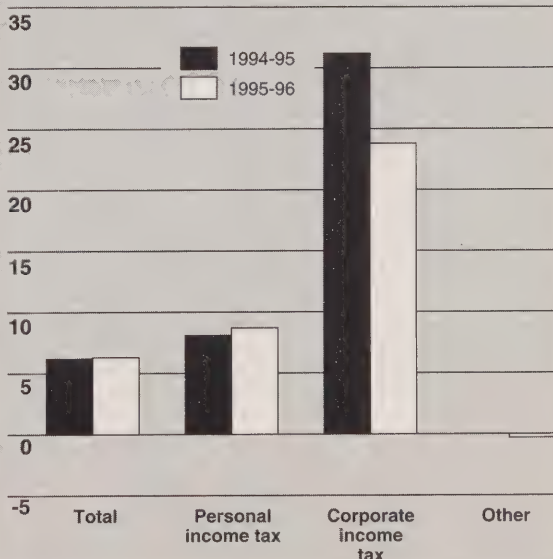
Unemployment insurance premium contributions declined by \$0.5 billion, primarily reflecting transfers of funds from the Unemployment Insurance Account to personal income tax collections due to overpayments to the Account for taxation year 1994. In addition, the premium rates for 1996 were reduced from their 1995 levels.

Total excise taxes and duties declined \$0.4 billion, as lower Goods and Services Tax (GST) and customs import duties collections more than offset an increase in other excise taxes and duties.

- Net GST collections were down 1.8 per cent on a year-over-year basis. Most of this decline was attributable to higher refunds. Gross GST collections were up 3.2 per cent in line with the increase in retail sales. However, refunds were up 9.5 per cent, primarily reflecting lags in the processing of refunds.
- Customs import duties declined 19.6 per cent, in part reflecting reductions in tariffs under the Canada-United States Free Trade Agreement.

Budgetary revenues 1994-95 and 1995-96

April to March
Year-over-year growth
per cent change



The Fiscal Monitor

- Other excise taxes and duties were up 9.3 per cent, largely due to the increase in gasoline and tobacco tax rates introduced in February 1995.

Non-tax revenue was up \$0.3 billion, or 5.0 per cent, in part reflecting the net gain to the government from its sale of Petro Canada shares and Canadian National Railways. Proceeds from the sale of government assets in excess of book value are credited to the deficit.

Budgetary expenditures up due to higher interest rates

Over the period April 1995 to March 1996, total budgetary expenditures were up 0.6 per cent, or \$0.8 billion, on a year-over-year basis, as higher public debt charges (up \$4.7 billion) more than offset the decline in program spending (down \$3.9 billion).

- The increase in public debt charges reflects both the increase in the gross stock of debt, or interest-bearing debt, and the lagged impact of higher interest rates over the March 1994 to April 1995 period.
- However, the year-over-year increase in public debt charges has moderated in recent months due to the general downward trend in interest rates since April 1995.

Program spending lower

Program spending declined by \$3.9 billion, or 3.4 per cent in the April 1995 to March 1996 period, compared to the same period in 1994-95. This decline primarily reflects the impact of the 1994 and 1995 budget measures:

- lower spending on defence, and operating and capital by the non-defence departments, reflecting the impact of restraint measures;
- lower unemployment insurance benefits, down 9.6 per cent, reflecting the impact of improving labour market conditions and the effect of recent budget measures; and
- lower transfer payments in the "other" component, reflecting the impact of budget restraint measures. Most departmental transfers

were lower with the exception of transfers under the Indian and Inuit programs and for regional development. The increase in regional development transfers was due to spending under the Canada Infrastructure Works Agreements.

In contrast, payments to the elderly were up 2.5 per cent, reflecting increases in the eligible population and higher monthly benefits as the latter are indexed to quarterly changes in the Consumer Price Index. Transfers to other levels of government, including Equalization, Established Programs Financing and Canada Assistance Plan, were up slightly, as higher Equalization payments, which grow roughly in line with the growth in the economy offset declines in Established Programs Financing and Canada Assistance Plan transfers, reflecting the impact of budget measures. Payments to Crown corporations were higher, primarily due to higher payments to the Canadian Broadcasting Corporation and to the Canada Mortgage and Housing Corporation.

Budgetary expenditures 1994-95 and 1995-96

April to March
Year-over-year growth

per cent change

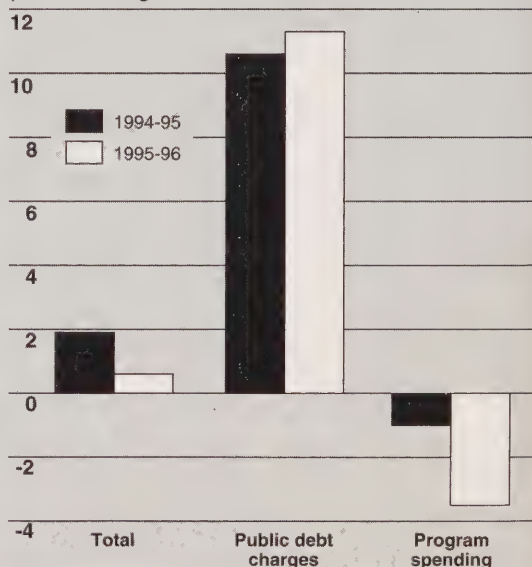


Table 3

Budgetary expenditures

	March		April to March		Per cent change
	1995	1996	1994-95	1995-96	
	(millions of dollars)				(%)
Transfer payments to:					
Persons					
Elderly benefits	1,732	1,781	20,514	21,023	2.5
Unemployment insurance benefits	1,480	1,403	14,863	13,441	-9.6
Veterans' pensions/allowances	122	115	1,436	1,386	-3.6
Total	3,334	3,299	36,814	35,849	-2.6
Other levels of government					
Established Programs Financing	1,172	719	10,004	9,609	-3.9
Fiscal transfers	977	1,000	9,584	10,164	6.1
Canada Assistance Plan	354	288	7,279	7,148	-1.8
Total	2,503	2,006	26,867	26,921	0.2
Other					
Agricultural subsidies	78	125	842	670	-18.7
Indian and Inuit programs	211	188	3,166	3,316	4.7
Regional development	93	92	462	611	32.3
Science and Technology	154	173	1,369	1,286	-6.1
International assistance	679	275	2,323	1,781	-23.3
Other	666	501	6,074	5,200	-14.4
Total	1,882	1,354	14,218	12,864	-9.5
Total transfers	7,719	6,659	77,897	75,634	-2.9
Payments to Crown corporations					
Canadian Broadcasting Corporation	38	73	1,089	1,171	7.5
Canada Mortgage and Housing Corporation	185	193	1,865	1,981	6.2
Other	72	167	1,329	1,448	9.0
Total	295	433	4,282	4,600	7.4
Operating and capital expenditures					
Defence	968	871	9,970	9,362	-6.1
All other departmental expenditures	1,853	1,733	17,972	16,629	-7.5
Total	2,821	2,604	27,942	26,005	-6.9
Total program expenditures	10,835	9,696	110,121	106,239	-3.5
Public debt charges	3,874	3,991	41,925	46,654	11.3
Total budgetary expenditures	14,709	13,687	152,046	152,893	0.6

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Table 4

The deficit and financial requirements

	March		April to March	
	1995	1996	1994-95	1995-96
	(millions of dollars)			
Deficit/Surplus	-3,175	-1,076	-31,093	-24,357
Loans, investments and advances				
Crown corporations	-85	-189	1,125	3,367
Other	-78	-64	-697	-321
Total	-163	-253	428	3,046
Specified purpose accounts				
Canada Pension Plan Account	425	435	692	254
Superannuation accounts	2,346	2,441	8,094	8,275
Other	40	210	212	506
Total	2,811	3,086	8,998	9,035
Other transactions	-1,386	-3,510	-3,956	-4,640
Total non-budgetary transactions	1,262	-677	5,470	7,441
Financial requirements (excluding foreign exchange transactions)	-1,913	-1,753	-25,623	-16,916

Table 5

Financial requirements, foreign exchange and unmatured debt transactions

	March		April to March	
	1995	1996	1994-95	1995-96
	(millions of dollars)			
Financial requirements (-) / Source (+) (excluding foreign exchange)	-1,913	-1,753	-25,623	-16,916
Foreign exchange transactions				
Net international reserves	925	-3,182	-1,333	-4,738
Unmatured debt transactions payable in foreign currencies	517	2,053	6,167	-125
Total	1,442	-1,129	4,835	-4,863
Total financial requirements/Source	-471	-2,882	-20,788	-21,779
Unmatured debt transactions				
Marketable bonds	-2,825	353	24,966	28,561
Canada Savings Bonds	-706	-279	146	31
Treasury bills	3,750	5,700	-1,550	1,650
Other	519	2,249	3,388	-1,761
Subtotal	738	8,023	26,950	28,481
<i>Less:</i>				
Government's holding of unmatured debt	115	132	-28	39
Unmatured debt transactions payable in foreign currency	-517	-2,053	-6,168	125
Subtotal	-402	-1,921	-6,196	164
Total unmatured debt transactions payable in Canadian dollars	333	6,102	20,754	28,645
Change in cash balance	-138	3,220	-34	6,866

	1995	1996
	(millions of dollars)	
Cash balances at end of period		
In Canadian dollars	1,817	8,468
In foreign currencies	287	290
Total cash balance	2,104	8,758
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	225,640	252,613
Canada Savings Bonds	31,477	31,417
Treasury bills	164,450	166,100
Other	3,489	3,478
Subtotal	425,056	453,608
Less:		
Government's holdings of unmatured debt	994	955
Total	424,062	452,653
Payable in foreign currencies		
Marketable bonds	7,789	9,501
Notes and loans	0	310
Canada bills	9,046	6,985
Subtotal	16,835	16,796
Less:		
Government's holdings of unmatured debt	0	0
Total unmatured debt	440,897	469,449

Financial requirements lower

Financial requirements measure the amount by which cash going out from the government exceeds cash coming in. Financial requirements – for the fiscal year as a whole – are lower than the deficit, as they also include the net source of funds from non-budgetary transactions. The latter includes transactions in loans, investments and advances, government employees' pension accounts, other specified accounts, and other financial assets and liabilities.

Non-budgetary transactions in the April 1995 to March 1996 period resulted in a net source of funds amounting to \$7.4 billion, compared to a net source of \$5.5 billion recorded in the corresponding period of 1994-95. Part of the higher net source of funds in 1995-96 was attributable to the cash proceeds resulting from the sale of Petro Canada and Canadian National Railways.

As a result, financial requirements, excluding foreign exchange transactions, amounted to \$16.9 billion in 1995-96, down \$8.6 billion from that recorded in 1994-95.

The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. It fulfills this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure on the currency.

In 1995-96, foreign exchange transactions provided a net requirement of funds amounting to \$4.9 billion, compared to a net source of funds amounting to \$4.8 billion in 1994-95.

Table 7

Debt Servicing and Reduction Account

	1991-92	1992-93	1993-94	1994-95	April to March 1995-96
	(millions of dollars)				
Gross GST collected	29,564	30,516	32,652	36,715	36,600
Less:					
Refunds and rebates	11,330	12,138	14,271	17,112	18,458
Quarterly low-income tax credit	2,262	2,503	2,685	2,816	2,842
Net GST	15,168	14,868	15,696	16,787	15,299
GST penalties and interest received	19	71	90	129	
Gains from wind-up of interest in Crown Corporations/disposal of shares in Crown corporations	2	110			500
Gifts to the Crown	0.4	0.1	0.2	0.5	0.2
Proceeds to the DSRA	15,190	15,050	15,786	16,916	15,799

Figures for 1991-92, 1992-93, 1993-94 and 1994-95 are from the *Public Accounts of Canada*.

As a result, total financial requirements, including foreign exchange transactions, were \$21.8 billion in 1995-96, up \$1.0 billion from the net requirement in 1994-95.

To finance these requirements, the government borrows from the private sector and/or draws down its cash reserves. Total borrowings from the private sector (unmatured debt transactions) amounted to \$28.6 billion in 1995-96, up \$7.9 billion from that borrowed on financial markets during 1994-95. Cash balances, as of March 31, 1996, stood at \$8.8 billion, compared to \$2.1 billion at March 31, 1995.

The Debt Servicing and Reduction Account

In June 1991, legislation to establish the Debt Servicing and Reduction Account received Royal Assent. As a result, effective April 1, 1991, all Goods and Services Tax revenue net of the applicable input tax credits, rebates, and the low-income credit, along with the net proceeds from the sale of Crown corporations and gifts to the Crown identified for debt reduction must, by law, go directly to the Debt Servicing and Reduction Account. The funds in this Account can only be used to pay the cost of servicing the public debt and ultimately to reduce the debt. The Account is audited on an annual basis by the Auditor General of Canada.



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Financial results for April 1996

Deficit declines \$1.3 billion in April 1996

The deficit in April 1996 was estimated at \$4.1 billion, down \$1.3 billion from April 1995. Most of the year-over-year decline in the deficit was attributable to higher revenues, up \$1.1 billion, or 16.2 per cent. In addition, both program spending and public debt charges were lower than in April 1995.

- The increase in budgetary revenues was primarily due to a \$0.7 billion increase in personal income tax collections. Most of this increase was due to the timing of the receipt of taxes paid relating to taxation year 1995. The filing date for taxation year 1995 was April 30, 1996 whereas for taxation year 1994, it was May 1, 1995.
- Net GST collections were up \$0.3 billion in April 1996 over April 1995. However, net collections in the month were a negative \$16 million. Net collections are the lowest in April of each year. This is largely due to the fact that most GST collections are due at the end of each month but normally not deposited in the government's bank accounts until the first few days of the following month. During the course of the year, these monies are reported in the month in which they are received. However, the monies remitted with respect to March, but not received until April, are credited to the previous fiscal year, thereby dampening overall collections in April. In addition, the low-income GST credit is paid in April, thereby further dampening net collections in that month.

- Employment insurance premiums were down by \$0.1 billion, reflecting the decline in premium rates and the maximum earnings base to which premiums are applied.

Program spending declined by \$0.1 billion, or 0.9 per cent. Declines were recorded in transfers to other levels of government, expenditures on Crown corporations and in defence. These reductions reflect actions taken in previous budgets. Dampening the impact of these declines were increased spending on elderly and employment insurance benefits, other transfers and in all other non-defence departmental spending. With the exception of the increase in elderly benefits (due to an increase in the population base and higher average monthly benefits), the increases in the other components primarily reflect timing factors, which should be reversed in coming months.

Public debt charges were down \$0.1 billion, or 3 per cent, in April 1996 compared to April 1995. This decline reflects the impact of lower interest rates, witnessed since April 1995. Sluggish economic growth, low inflation and fiscal restraint by all levels of government have put downward pressure on rates, especially short-term interest rates.



The Fiscal Monitor

Table 1

Summary statement of financial transactions¹

	April	
	1995	1996
	(in millions of dollars)	
Budgetary transactions		
Revenues	6,588	7,653
Program spending	-8,045	-7,971
Operating balance	-1,457	-318
Public debt charges	-3,855	-3,741
Deficit	-5,312	-4,059
Non-budgetary transactions	-255	-328
Financial requirements (excluding foreign exchange transactions)	-5,567	-4,387
Foreign exchange transactions	-4,553	-1,334
Financial requirements	-10,120	-5,721
Unmatured debt transactions	8,732	-921

Note: Data compiled by the Receiver General of Canada.

¹ (+) indicates a source of funds, while (-) indicates a requirement for funds.

Table 2

Detailed statement of budgetary transactions – Revenues

	April	
	1995	1996
	(in millions of dollars)	
Income taxes		
Personal income tax	3,830	4,528
Corporate income tax	503	550
Other income tax revenue	158	126
Total income tax	4,491	5,204
Employment insurance contributions	1,602	1,488
Excise taxes and duties		
Goods and Services Tax	-347	-16
Customs import duties	174	9
Sales and excise taxes	346	375
Total excise taxes/duties	173	453
Total tax revenues	6,266	7,145
Non-tax revenues	322	508
Total budgetary revenues	6,588	7,653

Table 3

Detailed statement of budgetary transactions – Expenditures

	April	
	1995	1996
	(in millions of dollars)	
Transfer payments to:		
Persons		
Elderly benefits	1,655	1,705
Employment insurance benefits	1,137	1,283
Other	112	109
Total	2,904	3,097
Other levels of government		
Canada Health and Social Transfer	1,621	1,254
Fiscal transfers	1,002	977
Alternative payments for standing programs	-163	-167
Total	2,460	2,064
Other		
Agricultural	9	
Indians and Inuit	644	693
Regional development		
Science and technology	52	50
International assistance	93	82
Other	225	290
Total	1,023	1,115
Total transfers	6,387	6,276
Payments to Crown corporations	489	399
Operating and capital expenditures		
Defence	398	392
All other departmental expenditures	771	904
Total	1,169	1,296
Total program spending	8,045	7,971
Public debt charges	3,855	3,741
Total budgetary expenditures	11,900	11,712

Table 4

Non-budgetary transactions

	April	
	1995	1996
	(in millions of dollars)	
Loans, investments and advances		
Crown corporations	18	58
Other	-354	-37
Total	-336	21
Specified purpose accounts		
Canada Pension Plan Account	557	532
Superannuation accounts	-143	-163
Other	37	-72
Total	451	297
Other transactions	-370	-646
Total non-budgetary transactions	-255	-328

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Table 5

Foreign exchange and unmatured debt transactions

	Avril	
	1995	1996
	(in millions of dollars)	
Foreign exchange transactions		
Net international reserves	-3,092	-1,906
Unmatured debt transactions payable in foreign currencies	-1,461	572
Total	-4,553	-1,334
Unmatured debt transactions		
Marketable bonds	3,050	2,800
Canada Savings Bonds	-452	-270
Treasury bills	6,000	-3,600
Other	-1,462	57
Subtotal	7,136	-499
<i>Less:</i>		
Government's holding of unmatured debt	135	150
Unmatured debt transactions payable in foreign currencies	1,461	-572
Subtotal	1,596	-422
Total unmatured debt transactions payable in Canadian dollars	8,732	-921

Table 6

Cash, unmatured debt and debt balances

	at April 30	
	1995	1996
	(in millions of dollars)	
Cash balances at end of period		
In Canadian dollars	537	1,896
In foreign currencies	173	20
Total cash balance	710	1,916
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	228,690	255,565
Canada Savings Bonds	31,035	31,158
Treasury bills	170,450	162,500
Other	3,487	3,47
Subtotal	433,662	452,70
<i>Less:</i>		
Government's holdings of unmatured debt	855	802
Total	432,807	451,898
Payable in foreign currencies		
Marketable bonds	7,793	9,501
Notes and loans	0	611
Canada bills	7,585	6,947
Subtotal	15,378	17,059
<i>Less:</i>		
Government's holdings of unmatured debt	0	
Total unmatured debt	448,185	468,957

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Financial results for May 1996

Deficit declines \$0.5 billion in May 1996

The deficit in May 1996 was estimated at \$0.6 billion, down \$0.5 billion from May 1995.

- The year-over-year improvement in the deficit was primarily attributable to a decline in program spending.
- Program spending declined 5.3 per cent, or \$0.5 billion.
 - All major components of program spending were lower in May 1996, compared with May 1995, with the exception of payments to Crown corporations. The year-over-year declines reflected the impact of the restraint measures introduced in the 1994 and 1995 budgets. The increase in payments to Crown corporations primarily reflects the timing of payments to the Canada Mortgage and Housing Corporation and to the Canadian Broadcasting Corporation.
- Budgetary revenues were up slightly in May 1996 compared to May 1995 (up 0.1 per cent). This relatively weak increase in revenues, compared to previous months, was due to the filing date for personal income tax returns. As noted in the April 1996 *Fiscal Monitor*, the filing date for taxation year 1995 was April 30, 1996, whereas for taxation year 1994, it was May 1, 1995. As a result, taxes paid on filing were higher in April 1996 than in April 1995 while taxes paid on filing in May 1996 were lower than in May 1995. Over the two-month period – April 1996 and May 1996 – taxes paid on filing were higher than in the same period a year ago.

- For the second consecutive month, public debt charges were lower on a year-over-year basis, due to the decline in interest rates witnessed since April 1995.

Deficit for April 1996 and May 1996 down by \$1.7 billion

Over the first two months of the fiscal year, the deficit, at \$4.6 billion, was \$1.7 billion lower than in the same period in 1995-96.

- Budgetary revenues were up \$1.1 billion or 6.0 per cent, on a year-over-year basis. This increase in collections reflected strong growth in income taxes (up 7.0 per cent, or \$0.8 billion) and higher excise taxes and duties (up 7.2 per cent). Employment insurance contributions declined (down 7.2 per cent), due to lower premium rates in 1996 and the lowering of the applicable earnings base to which premiums are calculated.
- Program spending declined by \$0.5 billion or 3.2 per cent, as lower expenditures were reported among all major components with the exception of transfers to persons. The decline in program spending primarily reflects the impact of the restraint measures introduced in the 1994 and 1995 budgets.
- Public debt charges were down \$0.1 billion, or 1.8 per cent. This reflects declines in interest rates, especially short-term rates. Fiscal restraint by the federal and provincial governments, continued low inflation and moderate wage growth have provided the necessary conditions for interest rates to come down.



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Table 1

Summary statement of financial transactions¹

	May		April to May	
	1995	1996	1995-96	1996-97
(in millions of dollars)				
Budgetary transactions				
Revenues	11,409	11,424	17,997	19,076
Program spending	-8,600	-8,147	-16,646	-16,118
Operating balance	2,809	3,277	1,351	2,958
Public debt charges	-3,882	-3,859	-7,737	-7,600
Deficit	-1,073	-582	-6,386	-4,642
Non-budgetary transactions	725	661	470	335
Financial requirements (excluding foreign exchange transactions)	-348	79	-5,916	-4,307
Foreign exchange transactions	2,382	954	-2,171	-380
Financial requirements	2,034	1,033	-8,087	-4,687
Unmatured debt transactions	1,048	42	9,780	-880

Note: Data compiled by the Receiver General of Canada.

¹ (+) indicates a source of funds, while (-) indicates a requirement for funds.

Table 2

Detailed statement of budgetary transactions – Revenues

	May		April to May	
	1995	1996	1995-96	1996-97
(in millions of dollars)				
Income taxes				
Personal income tax	5,680	5,612	9,510	10,140
Corporate income tax	1,009	1,097	1,513	1,647
Other income tax revenue	87	145	245	27
Total income tax	6,776	6,854	11,268	12,057
Employment insurance contributions	1,641	1,521	3,243	3,010
Excise taxes and duties				
Goods and Services Tax	1,601	1,664	1,254	1,648
Customs import duties	228	170	402	264
Sales and excise taxes	748	795	1,093	1,171
Total excise taxes/duties	2,577	2,629	2,749	3,083
Total tax revenues	10,994	11,004	17,260	18,150
Non-tax revenues	415	420	737	926
Total budgetary revenues	11,409	11,424	17,997	19,076

Table 3

Detailed statement of budgetary transactions – Expenditures

	May		April to May	
	1995	1996	1995-96	1996-97
(in millions of dollars)				
Transfer payments to:				
Persons				
Elderly benefits	1,735	1,800	3,390	3,505
Employment insurance benefits	1,188	1,129	2,325	2,412
Other	120	116	232	225
Total	3,043	3,045	5,947	6,142
Other levels of government				
Canada Health and Social Transfer	1,555	1,254	3,174	2,508
Fiscal transfers	551	772	1,553	1,749
Alternative Payments for Standing Programs	-163	-169	-326	-336
Total	1,943	1,857	4,401	3,921
Other				
Agricultural	14	51	23	51
Indians and Inuit	254	196	899	890
Regional development	—	—	—	—
Science and technology	78	32	131	83
International assistance	83	77	176	159
Other	519	434	744	724
Total	948	790	1,973	1,907
Total transfers	5,934	5,692	12,321	11,970
Payments to Crown corporations	247	308	735	707
Operating and capital expenditures				
Defence	837	638	1,235	1,030
All other departmental expenditures	1,582	1,509	2,355	2,411
Total	2,419	2,147	3,590	3,441
Total program spending	8,600	8,147	16,646	16,118
Public debt charges	3,882	3,859	7,737	7,600
Total budgetary expenditures	12,482	12,006	24,383	23,718

Table 4

Non-budgetary transactions

	May		April to May	
	1995	1996	1995-96	1996-97
(in millions of dollars)				
Loans, investments and advances				
Crown corporations	-65	-26	-47	32
Other	3	-72	-351	-11
Total	-62	-98	-398	-7
Specified purpose accounts				
Canada Pension Plan Account	740	754	1,296	1,286
Superannuation accounts	-170	-209	-313	-371
Other	-24	17	14	-53
Total	546	562	997	862
Other transactions	241	197	-129	-449
Total non-budgetary transactions	725	661	470	335

The Fiscal Monitor

Table 1

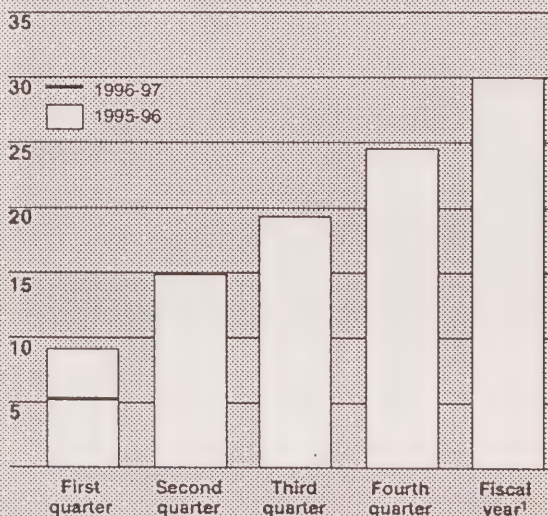
Summary statement of transactions

	June		April to June	
	1995	1996	1995-96	1996-97
(millions of dollars)				
Budgetary transactions				
Revenues	10,402	11,200	28,399	30,276
Program spending	-9,010	-8,009	-25,657	-24,127
Operating surplus	1,392	3,191	2,742	6,149
Public debt charges	-3,963	-3,844	-11,699	-11,444
Deficit/Surplus	-2,571	-653	-8,957	-5,29
Non-budgetary transactions	-2,246	-1,692	-1,776	-1,366
Financial requirements/source (excluding foreign exchange transactions)	-4,817	-2,345	-10,733	-6,661
Foreign exchange transactions	1,544	1,196	-627	815
Total financial requirements	-3,273	-1,149	-11,360	-5,846
Unmatured debt transactions	1,981	552	11,761	-328

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

The federal deficit 1995-96 and 1996-97

Year to date
billions of dollars



¹ Estimate

Budgetary revenues up

On a year-over-year basis, budgetary revenues over the April 1996 to June 1996 period increased by \$1.9 billion (6.6 per cent). This increase was largely attributable to higher income tax collections, up \$1.7 billion. Lower employment insurance premiums were offset by increases in the other revenue components. However, about \$1.2 billion of the growth in revenues was attributable to factors applicable to the April to June 1996 period. As such, the current pace of revenue growth is not expected to continue over the balance of the fiscal year.

Personal income tax collections were up \$1.6 billion, or 11.2 per cent, on a year-over-year basis. About half of this increase was attributable to higher taxes paid on filing, net of refunds, pertaining to the 1995 taxation year. The deadline for filing personal income returns is usually April 30. The taxes received at that time, therefore, affect the first quarter financial results.

Table 2

Budgetary revenues

	June		April to June		Per cent change
	1995	1996	1995-96	1996-97	
	(millions of dollars)				(%)
Income taxes					
Personal income tax	4,793	5,759	14,303	15,899	11.2
Corporate income tax	1,216	1,118	2,728	2,765	1.4
Other	97	114	342	385	12.
Total income tax	6,106	6,991	17,373	19,049	9.6
Employment insurance contributions	1,684	1,566	4,927	4,575	-7.1
Excise taxes and duties					
Goods and Services Tax	1,337	1,208	2,592	2,856	10.2
Customs import duties	240	216	642	480	-25.2
Other excise taxes/duties	605	675	1,698	1,846	8.7
Total excise taxes and duties	2,182	2,098	4,932	5,182	5.1
Total tax revenue	9,972	10,655	27,232	28,806	5.8
Non-tax revenue	430	545	1,167	1,470	26.0
Total budgetary revenues	10,402	11,200	28,399	30,276	6.6

Corporate income tax collections increased slightly, as continued strong advances in installment payments were nearly offset by higher refunds.

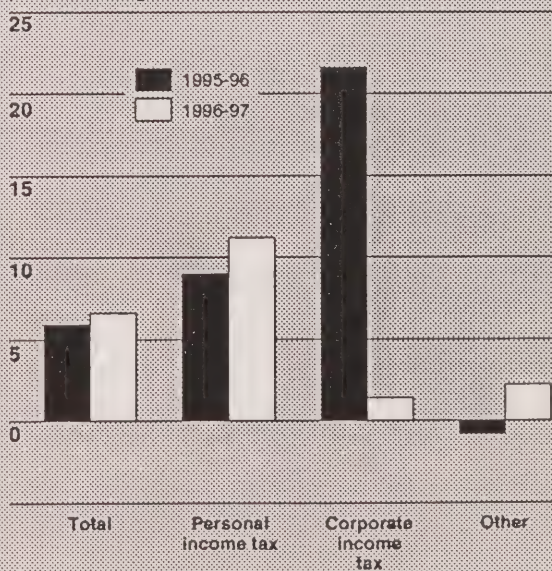
Employment insurance premium contributions declined by \$0.4 billion, due to lower premium rates in 1996 and the lowering of the applicable earnings base effective January 1996 to which premiums are calculated.

Total excise taxes and duties were up \$0.1 billion:

- Net GST collections were up 10.2 per cent, or \$0.3 billion, on a year-over-year basis. All of this increase occurred in April 1996, reflecting abnormally low collections in April 1995, rather than strength in collections in April 1996. On a year-over-year basis, net collections were lower in both May and June, reflecting the weakness in retail sales.

Budgetary revenues 1995-96 and 1996-97

April to June
Year-over-year growth
per cent change



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- Customs import duties declined 25.2 per cent, in part reflecting reductions in tariffs under the Canada-United States Free Trade Agreement.
- Other excise taxes and duties were up 8.7 per cent, in part reflecting higher Air Transport taxes, which effective April 1996 are included as part of budgetary revenues instead of being netted against program spending, as in previous years.

Budgetary expenditures down

Over the period April 1996 to June 1996, total budgetary expenditures, which include both public debt charges and program spending, were down 4.8 per cent, or \$1.8 billion. This decline was due to both lower public debt charges and program spending.

Public debt charges were down \$0.3 billion or 2.2 per cent. This decline reflected lower interest rates, especially short-term rates. Fiscal restraint by federal and provincial governments and continued low inflation have provided the necessary conditions for interest rates to come down.

Program spending declined by \$1.5 billion, or 6.0 per cent in the April 1996 to June 1996 period, compared to the same period in 1995-96. This decline primarily reflects the impact of the 1994 and 1995 budget measures to reduce and restructure federal government spending. However, the quarterly year-over-year decline somewhat overstates the decline in program spending expected for the year as a whole. This reflects the timing of the restraint measures, especially those affecting transfers to other levels of governments.

The year-over-year percentage change in cash transfers to other levels of government (-18.4 per cent) overstates the expected reduction for the year as a whole. This is due to the manner in which the restraint on Canada Assistance Plan

transfers to Ontario, Alberta, and British Columbia was put in place in the past. In 1995-96, the federal government continued to pay provincial claims under the Canada Assistance Plan to these provinces until the cap on annual transfers was reached, which did not occur until late in the fiscal year. However, under the CHST, provinces are paid in equal monthly instalments.

Among the other major components of program spending, transfers to persons were down 2.6 per cent in the first quarter of 1996-97, as lower employment insurance benefit transfers and veterans' pensions and allowance more than offset increased elderly benefit transfers. Other transfer payments, payments to Crown corporations and defence were also lower, reflecting the impact of expenditure restraint. All other departmental expenditures were up slightly, due to the timing of payments.

Budgetary expenditures 1995-96 and 1996-97

April to June
Year-over-year growth

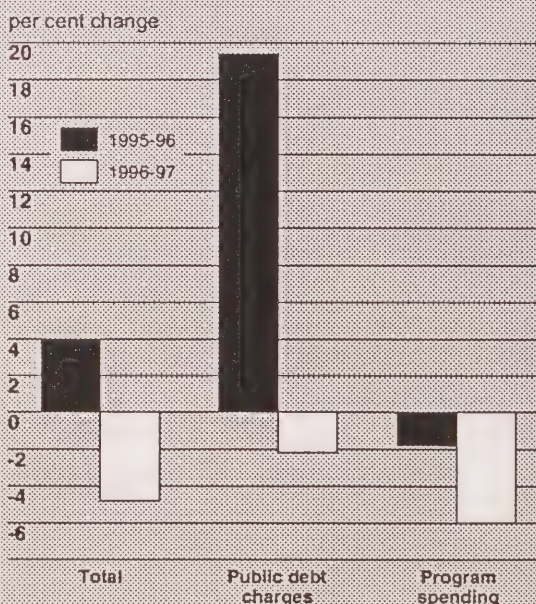


Table 3

Budgetary expenditures

	June		April to June		Per cent change
	1995	1996	1995-96	1996-97	
	(millions of dollars)				(%)
Transfer payments to:					
Persons					
Elderly benefits	1,745	1,791	5,135	5,296	2.5
Employment insurance benefits	958	853	3,283	3,265	-9.6
Veterans' pensions/allowances	119	111	351	335	-3.6
Total	2,822	2,755	8,769	8,896	-2.
Other levels of government					
Canada Health and Social Transfer	1,861	1,254	5,033	3,762	-25.3
Fiscal transfers	1,103	872	2,656	2,621	-1.3
Alternative payments for standing programs	-163	-169	-488	-505	3.5
Total	2,801	1,957	7,201	5,877	-18.4
Other					
Agricultural subsidies	6	15	30	66	120.0
Indian and Inuit programs	255	277	1,154	1,167	1.1
Regional development	15	17	31	37	20.9
Science and Technology	75	97	205	180	-12.2
International assistance	100	115	276	274	-0.7
Other	469	383	1,197	1,088	-9.0
Total	920	905	2,893	2,813	-2.8
Total transfers	6,543	5,618	18,863	17,587	-6.8
Payments to Crown corporations					
Canadian Broadcasting Corporation	82	65	354	298	-15.8
Canada Mortgage and Housing Corporation	163	177	429	451	5.0
Other	99	103	289	303	1.8
Total	345	345	1,081	1,052	-2.7
Operating and capital expenditures					
Defence	809	734	2,044	1,764	-13.7
All other departmental expenditures	1,313	1,312	3,669	3,724	1.5
Total	2,122	2,046	5,713	5,488	-3.9
Total program expenditures	9,010	8,009	25,657	24,127	-6.0
Public debt charges	3,963	3,844	11,699	11,444	-2.2
Total budgetary expenditures	12,973	11,853	37,356	35,571	-4.8

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As a result, total financial requirements, including foreign exchange transactions, were \$5.8 billion in 1996-97, down \$5.5 billion from the net requirement in 1995-96.

To finance these requirements, the government borrows from the private sector and/or draws down its cash reserves. In the first three months of 1996-97, the government reduced its borrowings from the private sector (unmatured debt transactions) by \$0.4 billion, compared to new borrowings of \$11.8 billion over the same period in 1995-96.

The Debt Servicing and Reduction Account

In June 1991, legislation to establish the Debt Servicing and Reduction Account received Royal Assent. As a result, effective April 1, 1991, all Goods and Services Tax revenue net of the applicable input tax credits, rebates, and the low-income credit, along with the net proceeds from the sale of Crown corporations and gifts to the Crown identified for debt reduction must, by law, go directly to the Debt Servicing and Reduction Account. The funds in this Account can only be used to pay the cost of servicing the public debt and ultimately to reduce the debt. The Account is audited on an annual basis by the Auditor General of Canada.

Table 7

Debt Servicing and Reduction Account

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Less:						
Refunds and rebates	11,330	12,138	14,271	17,112	18,458	4,463
Quarterly low-income tax credit	2,262	2,503	2,685	2,816	2,842	722
Net GST	15,168	14,868	15,696	16,787	15,299	2,855
GST penalties and interest received	19	71	90	129		
Gains from wind-up of interest in Crown Corporations/disposal of shares in Crown corporations	2	110			500	
Gifts to the Crown	0.4	0.1	0.2	0.5	0.2	
Proceeds to the DSRA	15,190	15,050	15,786	16,916	15,799	2,855

Figures for 1991-92, 1992-93, 1993-94 and 1994-95 are from the *Public Accounts of Canada*.



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Financial results for July 1996

Deficit declines \$0.5 billion in July 1996

The deficit in July 1996 was estimated at \$1.2 billion, down \$0.5 billion from July 1995

- The year-over-year improvement in the deficit was primarily attributable to higher revenues.
- Budgetary revenues were up \$0.5 billion, or 5.2 per cent.
 - Higher collections were reported for corporate income tax, the Goods and Services Tax and for non-tax revenues.
 - Personal income taxes were lower than in July 1995, primarily reflecting timing factors.
- Program spending and public debt charges were virtually unchanged, on a year-over-year basis.
 - Within program spending, declines were reported in transfers to other levels of government, Crown corporation expenditures and in defence spending, which were offset by increases in non-defence departmental operating and capital expenditures and certain subsidy and other transfer payments. The increases in program spending were attributable to the timing of payments and not indicative of the final outcome for the year as a whole.
 - Public debt charges were slightly lower in July 1996, reflecting declines in interest rates witnessed since April 1995.

Deficit for April 1996 to July 1996 down by \$4.2 billion

Over the first four months of the fiscal year, the deficit, at \$6.5 billion, was \$4.2 billion lower than in the same period in 1995-96.

- Budgetary revenues were up \$2.4 billion or 6.2 per cent, on a year-over-year basis. This increase in collections reflected strong growth in income taxes (up 7.7 per cent, or \$1.8 billion), higher excise taxes and duties (up 7.7 per cent), and higher non-tax revenues (up 34.5 per cent). Employment insurance contributions declined (down 7.1 per cent), due to lower premium rates in 1996 and the lowering of the applicable earnings base to which premiums are calculated.
- Program spending declined by \$1.5 billion or 4.2 per cent. The decline in program spending primarily reflects the impact of the restraint measures introduced in the 1994 and 1995 budgets.
- Public debt charges were down \$0.3 billion, or 1.7 per cent. This decline reflects the decline in interest rates, especially short-term rates. Fiscal restraint by the federal and provincial governments and continued low inflation have provided the necessary conditions for interest rates to come down.



The Fiscal Monitor

Table 1

Summary statement of financial transactions¹

	July		April to July	
	1995	1996	1995-96	1996-97
(in millions of dollars)				
Budgetary transactions				
Revenues	10,581	11,129	38,980	41,405
Program spending	-8,245	-8,288	-33,902	-32,415
Operating balance	2,336	2,841	5,078	8,990
Public debt charges	-4,007	-3,996	-15,706	-15,440
Deficit	-1,671	-1,155	-10,628	-6,450
Non-budgetary transactions	1,860	1,835	86	469
Financial requirements (excluding foreign exchange transactions)	189	680	-10,542	-5,981
Foreign exchange transactions	-1,580	317	-2,206	1,133
Financial requirements	-1,391	997	-12,748	-4,848
Unmatured debt transactions	2,243	1,367	14,003	1,037

Note: Data compiled by the Receiver General of Canada.

¹ (+) indicates a source of funds, while (-) indicates a requirement for funds.

Table 2

Detailed statement of budgetary transactions – Revenues

	July		April to July	
	1995	1996	1995-96	1996-97
(in millions of dollars)				
Income taxes				
Personal income tax	5,269	5,105	19,572	21,004
Corporate income tax	1,092	1,400	3,820	4,165
Other income tax revenue	162	176	504	561
Total income tax	6,523	6,681	23,896	25,730
Employment insurance contributions	1,706	1,587	6,634	6,162
Excise taxes and duties				
Goods and Services Tax	1,150	1,262	3,742	4,118
Customs import duties	223	202	865	682
Sales and excise taxes	615	810	2,314	2,656
Total excise taxes/duties	1,987	2,274	6,921	7,456
Total tax revenues	10,217	10,542	37,451	39,348
Non-tax revenues	364	587	1,529	2,057
Total budgetary revenues	10,581	11,129	38,980	41,405

The Fiscal Monitor

Table 3

Detailed statement of budgetary transactions – Expenditures

	July		April to July	
	1995	1996	1995-96	1996-97
(in millions of dollars)				
Transfer payments to:				
Persons				
Elderly benefits	1,749	1,760	6,884	7,056
Employment insurance benefits	905	916	4,188	4,181
Other	110	116	470	451
Total	2,773	2,792	11,542	11,688
Other levels of government				
Canada Health and Social Transfer	1,608	1,254	6,641	5,016
Fiscal transfers	798	881	3,454	3,502
Alternative Payments for Standing Programs	-163	-169	-651	-674
Total	2,243	1,966	9,444	7,844
Other				
Agricultural	26	116	55	182
Indians and Inuit	242	274	1,396	1,440
Regional development	17	24	48	62
Science and technology	51	43	356	222
International assistance	93	166	370	440
Other	305	415	1,502	1,503
Total	734	937	3,627	3,749
Total transfers	5,750	5,695	24,613	23,281
Payments to Crown corporations	337	295	1,418	1,347
Operating and capital expenditures				
Defence	785	742	2,828	2,505
All other departmental expenditures	1,373	1,556	5,043	5,282
Total	2,158	2,298	7,871	7,787
Total program spending	8,245	8,288	33,902	32,415
Public debt charges	4,007	3,996	15,706	15,440
Total budgetary expenditures	12,252	12,284	49,608	47,855

Table 4

Non-budgetary transactions

	July		April to July	
	1995	1996	1995-96	1996-97
(in millions of dollars)				
Loans, investments and advances				
Crown corporations	392	387	456	551
Other	-70	-23	-599	-250
Total	322	364	-143	301
Specified purpose accounts				
Canada Pension Plan Account	-476	-506	842	641
Superannuation accounts	-167	-174	1,858	1,930
Other	-5	51	-9	1
Total	-648	-629	2,691	2,582
Other transactions	2,186	2,100	-2,462	-2,414
Total non-budgetary transactions	1,860	1,835	86	469

The Fiscal Monitor

Table 5

Foreign exchange and unmatured debt transactions

	July		April to July	
	1995	1996	1995-96	1996-97
	(in millions of dollars)			
Foreign exchange transactions				
Net international reserves	-3,349	118	-2,285	565
Unmatured debt transactions payable in foreign currencies	1,769	199	79	568
Total	-1,580	317	-2,206	1,133
Unmatured debt transactions				
Marketable bonds	7,068	5,400	17,637	12,528
Canada Savings Bonds	-285	-252	-1,551	-1,053
Treasury bills	-3,248	-4,300	499	-11,900
Other	352	564	-3,066	1,455
Subtotal	3,887	1,412	13,519	1,030
<i>Less:</i>				
Government's holding of unmatured debt	125	154	563	575
Unmatured debt transactions payable in foreign currencies	-1,769	-199	-79	-568
Subtotal	-1,644	-45	484	
Total unmatured debt transactions payable in Canadian dollars	2,243	1,367	14,003	1,037

Table 6

Cash, unmatured debt and debt balances

	at June 30	
	1995	1996
	(in millions of dollars)	
Cash balances at end of period		
In Canadian dollars	3,125	4,731
In foreign currencies	21	6
Total cash balance	3,146	4,734
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	239,355	265,293
Canada Savings Bonds	29,835	30,375
Treasury bills	164,949	154,200
Other	4,265	4,365
Subtotal	438,404	454,233
<i>Less:</i>		
Government's holdings of unmatured debt	428	375
Total	437,976	453,858
Payable in foreign currencies		
Marketable bonds	11,797	9,501
Notes and loans	0	921
Canada bills	5,203	6,943
Subtotal	17,000	17,365
<i>Less:</i>		
Government's holdings of unmatured debt	0	0
Total unmatured debt	454,976	471,223

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September 1996



The Fiscal Monitor

Financial results for August 1996

Deficit declines \$1.2 billion in August 1996

The deficit in August 1996 was estimated at \$1.9 billion, down \$1.2 billion from August 1995

- The year-over-year improvement in the deficit was primarily attributable to lower program spending.
- Program spending was down \$1.0 billion, or 10.7 per cent.
 - The decline in program spending primarily reflects the impact of the restraint measures announced in the 1994 and 1995 budgets.
- Public debt charges declined \$0.2 billion on year-over-year basis, reflecting declines in interest rates witnessed since April 1995.
- Budgetary revenues were virtually unchanged in August 1996, compared to August 1995, as higher personal and corporate income tax collections were largely offset by lower Goods and Services Tax (GST) collections.
 - The year-over-year decline in GST collections was due to the timing of receipts, as certain collections due at month-end were remitted in early September. Under GST legislation, some monthly remittances are due on the last day of the month. If that day falls on a weekend or holiday, the remittances are not due until the first business day of the next month. These remittance procedures should have no impact on the collections results for the year as a whole, as adjustments are made at year end to correct for timing differences.

Deficit for April 1996 to August 1996 down by \$5.4 billion

Over the first five months of the fiscal year, the deficit, at \$8.3 billion, was \$5.4 billion lower than in the same period in 1995-96.

- Budgetary revenues were up \$2.4 billion or 4.8 per cent, on a year-over-year basis. This increase in collections reflected strong growth in income taxes (up 8.6 per cent, or \$2.5 billion) and higher non-tax revenues (up 26.0 per cent or \$0.5 billion). Employment insurance contributions declined (down 6.8 per cent), due to lower premium rates in 1996 and the lowering of the applicable earnings base on which premiums are calculated. Excise taxes and duties were down 0.7 per cent or \$0.1 billion. Declines in GST collections, due to the timing of receipts in August 1996, and in customs import duties more than offset increases in other excise taxes and duties.
- Program spending declined by \$2.5 billion or 5.7 per cent. The decline in program spending primarily reflects the impact of the restraint measures introduced in the 1994 and 1995 budgets.
- Public debt charges were down \$0.5 billion, or 2.6 per cent. This reflects the decline in interest rates, especially short-term rates. Fiscal restraint by the federal and provincial governments and continued low inflation have provided the necessary conditions for interest rates to come down.

The results to date cannot be used to extrapolate what the deficit outcome will be for the year as a whole, as part of the improvement to date is attributable to developments unique to the first quarter of 1996-97 and the manner in which certain restraint measures are being implemented. However, the deficit results to date clearly suggest that the deficit target for 1996-97 will be met.



The Fiscal Monitor

Table 1

Summary statement of financial transactions¹

	August		April to August	
	1995	1996	1995-96	1996-97
(in millions of dollars)				
Budgetary transactions				
Revenues	10,046	9,992	49,026	51,398
Program spending	-9,169	-8,187	-43,070	-40,602
Operating balance	877	1,805	5,956	10,796
Public debt charges	-3,935	-3,688	-19,641	-19,128
Deficit	-3,058	-1,883	-13,685	-8,332
Non-budgetary transactions	925	1,257	1,011	1,728
Financial requirements (excluding foreign exchange transactions)	-2,133	-626	-12,674	-6,604
Foreign exchange transactions	-3,289	446	-5,496	1,579
Financial requirements	-5,422	-180	-18,170	-5,025
Unmatured debt transactions	5,110	-317	19,113	720

Note: Data compiled by the Receiver General of Canada.

¹ (+) indicates a source of funds, while (-) indicates a requirement for funds.

Table 2

Detailed statement of budgetary transactions – Revenues

	August		April to August	
	1995	1996	1995-96	1996-97
(in millions of dollars)				
Income taxes				
Personal income tax	4,044	4,573	23,616	25,577
Corporate income tax	759	873	4,579	5,038
Other income tax revenue	137	136	640	697
Total income tax	4,940	5,582	28,835	31,312
Employment insurance contributions	1,703	1,609	8,336	7,771
Excise taxes and duties				
Goods and Services Tax	1,945	1,323	5,687	5,441
Customs import duties	288	223	1,154	905
Sales and excise taxes	662	743	2,975	3,399
Total excise taxes/duties	2,895	2,289	9,816	9,745
Total tax revenues	9,538	9,480	46,987	48,828
Non-tax revenues	508	512	2,039	2,57
Total budgetary revenues	10,046	9,992	49,026	51,398

Table 3

Detailed statement of budgetary transactions – Expenditures

	August		April to August	
	1995	1996	1995-96	1996-97
(in millions of dollars)				
Transfer payments to:				
Persons				
Elderly benefits	1,752	1,784	8,637	8,839
Employment insurance benefits	1,040	941	5,228	5,122
Other	118	112	588	563
Total	2,910	2,837	14,453	14,524
Other levels of government				
Canada Health and Social Transfer ¹	1,890	1,254	8,530	6,270
Fiscal transfers	743	830	4,197	4,332
Alternative Payments for Standing Programs	-163	-169	-814	-844
Total	2,470	1,915	11,913	9,758
Other				
Agricultural	20	61	75	243
Indians and Inuit	233	233	1,631	1,574
Regional development	43	36	105	127
Science and technology	132	130	389	352
International assistance	135	111	505	511
Other	573	146	2,059	1,618
Total	1,136	717	4,764	4,465
Total transfers	6,516	5,469	31,130	28,747
Payments to Crown corporations	310	308	1,727	1,655
Operating and capital expenditures				
Defence	839	849	3,667	3,355
All other departmental expenditures	1,504	1,561	6,546	6,845
Total	2,343	2,410	10,213	10,200
Total program spending	9,169	8,187	43,070	40,602
Public debt charges	3,935	3,688	19,641	19,128
Total budgetary expenditures	13,104	11,875	62,711	59,730

¹ Given the manner in which monthly CHST cash is calculated, the current decline is not indicative of the outcome for the year as a whole.

Table 4

Non-budgetary transactions

	August		April to August	
	1995	1996	1995-96	1996-97
(in millions of dollars)				
Loans, investments and advances				
Crown corporations	-120	58	336	609
Other	-2	1	-602	-249
Total	-122	59	-266	36
Specified purpose accounts				
Canada Pension Plan Account	-150	-305	692	336
Superannuation accounts	-130	-209	1,729	1,721
Other	25	56	16	69
Total	-255	-458	2,437	2,12
Other transactions	1,302	1,656	-1,160	-758
Total non-budgetary transactions	925	1,257	1,011	1,728

The Fiscal Monitor

Table 5

Foreign exchange and unmatured debt transactions

	August		April to August	
	1995	1996	1995-96	1996-97
	(in millions of dollars)			
Foreign exchange transactions				
Net international reserves	-2,687	556	-4,972	1,121
Unmatured debt transactions payable in foreign currencies	-602	-110	-524	458
Total	-3,289	446	-5,496	1,579
Unmatured debt transactions				
Marketable bonds	3,922	100	21,559	12,62
Canada Savings Bonds	-297	-218	-1,847	-1,271
Treasury bills	1,351	-300	1,850	-12,200
Other	-603	-111	-3,670	1,344
Subtotal	4,373	-529	17,892	501
<i>Less:</i>				
Government's holding of unmatured debt	135	102	697	677
Unmatured debt transactions payable in foreign currencies	602	110	524	-458
Subtotal	737	212	1,221	219
Total unmatured debt transactions payable in Canadian dollars	5,110	-317	19,113	720

Table 6

Cash, unmatured debt and debt balances

	at August 31	
	1995	1996
	(in millions of dollars)	
Cash balances at end of period		
In Canadian dollars	2,692	4,207
In foreign currencies	142	31
Total cash balance	2,834	4,238
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	243,383	265,393
Canada Savings Bonds	29,539	30,157
Treasury bills	166,300	153,900
Other	4,264	4,36
Subtotal	443,486	453,81
<i>Less:</i>		
Government's holdings of unmatured debt	296	357
Total	443,190	453,457
Payable in foreign currencies		
Marketable bonds	11,796	9,514
Notes and loans	0	921
Canada bills	4,601	6,83
Subtotal	16,397	17,269
<i>Less:</i>		
Government's holdings of unmatured debt	0	
Total unmatured debt	459,587	470,726

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The Fiscal Monitor

Government
Publication

A Publication of the Department of Finance

Highlights of financial results for September 1996

Surplus of \$1.3 billion reported in September 1996

A surplus of \$1.3 billion was reported in September 1996, compared to a deficit of \$1.0 billion in September 1995, representing an improvement in the federal fiscal situation of \$2.3 billion.

- The year-over-year improvement reflected higher revenues (up 13.0 per cent or \$1.5 billion), lower program spending (down 6.5 per cent or \$0.6 billion) and lower public debt charges (down 6.0 per cent or \$0.2 billion).
- Over half of the reported surplus in September 1996 was attributable to the timing of Goods and Services Tax (GST) collections. GST collections in August 1996 were weak, as certain collection due at month-end were remitted in early September and included in the September 1996 results.

Deficit for April 1996 to September 1996 down by \$7.7 billion

Over the six-month period (April to September), the deficit stood at \$7.0 billion, down \$7.7 billion from the same period in 1995-96.

- Budgetary revenues were up \$3.9 billion or 6.4 per cent, on a year-over-year basis. This increase in collections reflected strong growth in income taxes (up 9.1 per cent), in excise taxes and duties (7.8 per cent) and in non-tax revenues (up 11.8%), dampened by a decline in employment insurance contributions (down 6.4 per cent).
- Program spending was down \$3.0 billion or 5.8 per cent, primarily reflecting the impact of the restraint measures introduced in the 1994 and 1995 budgets.
- Public debt charges were down by \$0.7 billion, or 3.2 per cent. This reflected declines in interest rates, especially short-term rates. Fiscal restraint by federal and provincial governments and continued low inflation have provided the necessary conditions for interest rates to come down.

As noted in *The Economic and Fiscal Update*, the results to date overstate the expected improvement in the deficit for the year as a whole. About \$3.5 billion of the year-over-year improvement in the deficit to date was attributable to special factors, some of which will be reversed over the balance of the year. Nevertheless, the results to date clearly indicate that the 1996-97 deficit target of \$24.3 billion will be met and possibly bettered.

The Fiscal Monitor

Table 1

Summary statement of transactions

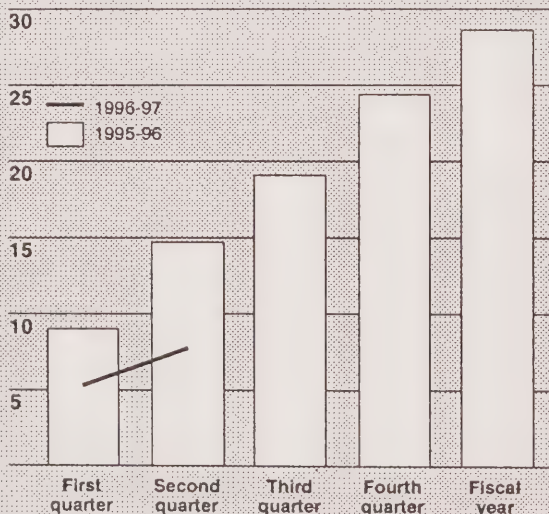
	September		April to September	
	1995	1996	1995-96	1996-97
	(millions of dollars)			
Budgetary transactions				
Revenues	11,657	13,176	60,683	64,574
Program spending	-8,780	-8,213	-51,849	-48,815
Operating surplus	2,877	4,963	8,834	15,759
Public debt charges	-3,869	-3,635	-23,511	-22,763
Deficit/Surplus	-992	1,328	-14,677	-7,004
Non-budgetary transactions	1,152	1,029	2,163	2,755
Financial requirements/source (excluding foreign exchange transactions)	160	2,357	-12,514	-4,249
Foreign exchange transactions	2,263	-999	-3,233	580
Total financial requirements	2,423	1,358	-15,747	-3,669
Unmatured debt transactions	2,033	-1,370	21,145	-650

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

The federal deficit 1995-96 and 1996-97

Year to date

billions of dollars



Budgetary revenues up

On a year-over-year basis, budgetary revenues over the April 1996 to September 1996 period increased by \$3.9 billion (6.4 per cent). This increase was attributable to higher income tax collections (up 8.3 per cent), excise taxes and duties (up 7.8 per cent) and non-tax revenues (up 11.8 per cent). In contrast, employment insurance premiums were lower (down 6.4 per cent). However, half of the growth in revenues to date was attributable to special factors as described below, which overstate the underlying trend in budgetary revenues.

About half of the increase in personal income tax collections was attributable to higher taxes paid on filing, net of returns, pertaining to the 1995 taxation year. The deadline for filing personal income returns is usually April 30th. The taxes received at that time, therefore, affect the first quarter financial results. In contrast, deductions from employment income, up about 2 per cent from last year, closely mirror the developments in employment and labour income.

Table 2

Budgetary revenues

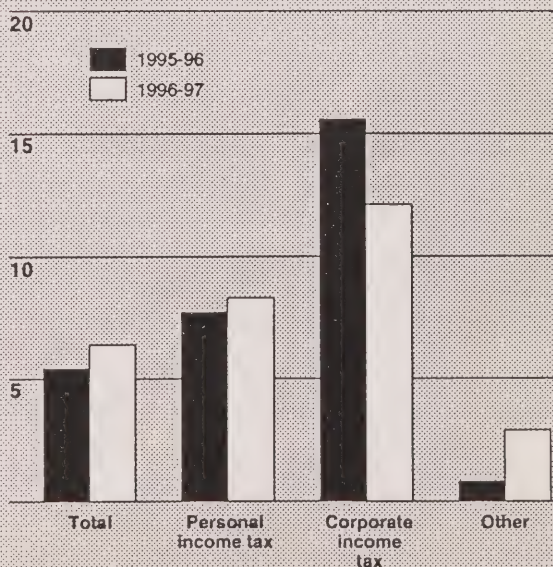
	September		April to September		Per cent change
	1995	1996	1995-96	1996-97	
	(millions of dollars)				(%)
Income taxes					
Personal income tax	6,328	6,866	29,944	32,443	8.3
Corporate income tax	857	1,059	5,436	6,096	12.1
Other	117	187	924	1,081	17.0
Total income tax	7,302	8,112	36,304	39,620	9.1
Employment insurance contributions	1,696	1,616	10,033	9,387	-6.4
Excise taxes and duties					
Goods and Services Tax	1,096	1,982	6,784	7,423	9.4
Customs import duties	274	240	1,427	1,145	-19.7
Other excise taxes/duties	602	753	3,410	3,954	16.0
Total excise taxes and duties	1,972	2,975	11,621	12,522	7.8
Total tax revenue	10,970	12,703	57,958	61,529	6.2
Non-tax revenue	687	473	2,725	3,045	11.8
Total budgetary revenues	11,657	13,176	60,683	64,574	6.4

Although corporate income tax collections are running well above last year's level, this primarily reflects the remittance procedures for corporations, as corporate profits are below last year's level. Monthly corporate income tax instalments are based on last year's actual tax liability or this year's estimated liability, with any adjustment at the time of filing at year end. Monthly instalments during 1995-96 were based on 1994 tax liabilities, whereas current instalment payments are based on 1995 tax liabilities. Liabilities for taxation year 1995 were substantially higher than those in 1994, accounting for the year-over-year increase in instalment payments to date. As indicated in *The Economic and Fiscal Statement*, corporate income tax collections for the year as a whole are expected to be only marginally higher than the final outcome for 1995-96.

Employment insurance contributions declined by \$0.6 billion, due to lower premium rates in 1996 and the lowering of the applicable earnings base effective January 1996 to which premiums are calculated.

Budgetary revenues 1995-96 and 1996-97

April to September
Year-over-year growth
per cent change



The Fiscal Monitor

Total excise taxes and duties were up \$0.9 billion:

- Net GST collections were up 9.4 per cent, or \$0.6 billion, on a year-over-year basis. Most of this increase occurred in April 1996, reflecting abnormally low collections in April 1995, rather than strength in collections in April 1996. The underlying weakness in net GST collections reflects the overall weakness in retail sales.
- Customs import duties declined 19.7 per cent, in part reflecting reductions in tariffs under the Canada-United States Free Trade Agreement.
- Other excise taxes and duties were up 16.0 per cent, or \$0.4 billion. About two-thirds of this increase is due to the reclassification of Air Transport taxes, which effective April 1996 are included as part of budgetary revenues instead of being netted against program spending, as in previous years. Although this reclassification affects both budgetary revenues and program spending, it has no impact on the deficit.

Non-tax revenues were up 11.8 per cent, or \$0.3 billion. Most of this increase was due to the inclusion the second tranche of seignorage gains related to the introduction of the \$2 coin. The first tranche was included in the final quarter of 1995-96.

Budgetary expenditures down

Over the period April 1996 to September 1996, total budgetary expenditures, which include both public debt charges and program spending, were down 5.0 per cent, or \$3.8 billion. This decline was due to both lower public debt charges and program spending.

Public debt charges were down \$0.7 billion or 3.2 per cent. This decline reflected lower interest rates, especially short-term rates. Fiscal restraint by federal and provincial governments and continued low inflation have provided the necessary conditions for interest rates to come down.

Program spending declined by \$3.0 billion, or 5.9 per cent in the April 1996 to September 1996 period, compared to the same period in 1995-96. This decline primarily reflects the impact of the 1994 and 1995 budget measures to reduce and restructure federal government spending, affecting

all major components of program spending. However, there are a number of other factors which affect the year-over-year decline to date.

This is especially applicable with respect to the decline in transfers to other levels of government. In the February 1994 budget, provincial entitlements under the Canada Assistance Program (CAP) for 1995-96 were frozen at their 1994-95 levels. As a result, monthly payments during 1995-96 were concentrated in the first half of the year as payments were made until the provincial ceilings were reached. Effective 1996-97, and as announced in the 1995 budget, CAP and Established Program Financing (EPF) were replaced by a new block grant called the Canada Health and Social Transfer (CHST), with the cash portion paid in equal monthly instalments. As a result, the year-over-year changes are affected by not only the restraint measures but also the manner in which transfers to the provinces are being made on a monthly basis. Of the decline witnessed in transfers to other levels of governments to date, about one-third relates to these timing factors which will be reversed in coming months.

Budgetary expenditures 1995-96 and 1996-97

April to September
Year-over-year growth

per cent change

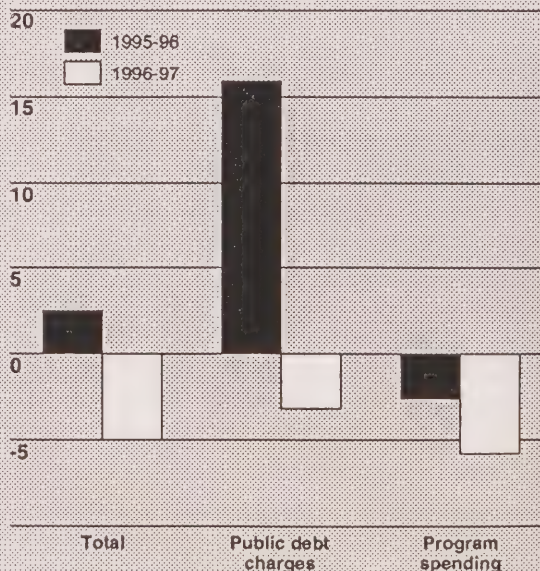


Table 3

Budgetary expenditures

	September		April to September		
	1995	1996	1995-96	1996-97	Per cent change
	(millions of dollars)				(%)
Transfer payments to:					
Persons					
Elderly benefits	1,751	1,825	10,388	10,664	2.7
Employment insurance benefits	880	826	6,107	5,948	-2.6
Veterans' pensions/allowances	117	113	705	676	-4.1
Total	2,748	2,764	17,200	17,288	0.5
Other levels of government					
Canada Health and Social Transfer	1,630	1,254	10,159	7,524	-25.9
Fiscal transfers	837	804	5,034	5,136	2.0
Alternative payments for standing programs	-164	-169	-978	-1,013	3.6
Total	2,303	1,889	14,215	11,647	-18.1
Other					
Agricultural subsidies	110	68	185	311	68.1
Indian and Inuit programs	253	290	1,884	1,865	-1.0
Regional development	40	28	145	155	6.9
Science and Technology	74	41	463	393	-15.1
International assistance	184	126	689	677	-1.7
Other	402	457	2,461	2,075	-15.7
Total	1,063	1,010	5,827	5,476	-6.0
Total transfers	6,114	5,663	37,242	34,411	-7.6
Payments to Crown corporations					
Canadian Broadcasting Corporation	90	64	613	504	-17.8
Canada Mortgage and Housing Corporation	175	152	886	874	-1.3
Other	116	72	609	566	-7.1
Total	381	288	2,108	1,944	-7.8
Operating and capital expenditures					
Defence	820	768	4,487	4,123	-8.1
All other departmental expenditures	1,465	1,494	8,012	8,337	4.1
Total	2,285	2,262	12,499	12,460	-0.3
Total program expenditures	8,780	8,213	51,849	48,815	-5.9
Public debt charges	3,869	3,635	23,511	22,763	-3.2
Total budgetary expenditures	12,649	11,848	75,360	71,578	-5.0

The Fiscal Monitor

Table 4

The deficit and financial requirements

	September		April to September	
	1995	1996	1995-96	1996-97
	(millions of dollars)			
Deficit/surplus	-992	1,328	-14,677	-7,004
Loans, investments and advances				
Crown corporations	-159	148	177	758
Other	744	-84	143	-33
Total	585	64	320	424
Specified purpose accounts				
Canada Pension Plan Account	172	484	864	819
Superannuation accounts	2,393	2,562	4,122	4,283
Other	90	20	105	88
Total	2,655	3,066	5,091	5,190
Other transactions	-2,088	-2,101	-3,248	-2,859
Total non-budgetary transactions	1,152	1,029	2,163	2,755
Financial requirements (excluding foreign exchange transactions)	160	2,357	-12,514	-4,249

Table 5

Financial requirements, foreign exchange and unmatured debt transactions

	September		April to September	
	1995	1996	1995-96	1996-97
	(millions of dollars)			
Financial requirements (-)/source (+) (excluding foreign exchange)	160	2,357	-12,514	-4,249
Foreign exchange transactions				
Net international reserves	2,394	-791	-2,578	330
Unmatured debt transactions payable in foreign currencies	-131	-208	-655	250
Total	2,263	-999	-3,233	580
Total financial requirements/source	2,423	1,358	-15,747	-3,669
Unmatured debt transactions				
Marketable bonds	1,100	950	22,659	13,57
Canada Savings Bonds	-265	-206	-2,113	-1,477
Treasury bills	1,400	-1,700	3,250	-13,900
Other	-461	-735	-4,131	609
Subtotal	1,774	-1,691	19,665	-1,190
<i>Less:</i>				
Government's holding of unmatured debt	128	113	825	790
Unmatured debt transactions payable in foreign currency	131	208	655	-250
Subtotal	259	321	1,480	540
Total unmatured debt transactions payable in Canadian dollars	2,033	-1,370	21,145	-650
Change in cash balance	4,456	-12	5,398	-4,319

Table 6

Cash, unmatured debt and debt balances: at September 30

	1995	1996
	(millions of dollars)	
Cash balances at end of period		
In Canadian dollars	7,115	4,207
In foreign currencies	176	19
Total cash balance	7,291	4,226
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	244,483	266,343
Canada Savings Bonds	29,273	29,951
Treasury bills	167,700	152,200
Other	3,934	3,83
Subtotal	445,390	452,33
Less:		
Government's holdings of unmatured debt	169	244
Total	445,221	452,087
Payable in foreign currencies		
Marketable bonds	11,797	9,514
Notes and loans	0	921
Canada bills	4,469	6,62
Subtotal	16,266	17,060
Less:		
Government's holdings of unmatured debt	0	
Total unmatured debt	461,487	469,147

The increase in all other departmental expenditure was entirely due to the reclassification of the Air Transport tax. In 1995-96, this tax was netted against such spending, whereas in 1996-97 it is classified as part of budgetary revenues. Adjusting for this reclassification, this component would register a decline on a year-over-year basis.

Among the other major components of program spending, transfers to persons were up 0.5 per cent in the six months of 1996-97, as higher elderly benefit payments, due to increases in the elderly population and average benefits, more than offset lower employment insurance benefits and veterans' pensions and allowances. Other transfer payments, payments to Crown corporations and defence were also lower, reflecting the impact of expenditure restraint.

Financial requirements lower

Financial requirements measure the amount by which cash going out from the government exceeds cash coming in. Financial requirements – for the fiscal year as a whole – are lower than the deficit, as they also include the non-budgetary transactions. The latter includes transactions in loans, investments and advances, government employees' pension accounts, other specified accounts, and other financial assets and liabilities.

Non-budgetary transactions in the April 1996 to September 1996 period resulted in a net source of funds amounting to \$2.8 billion, compared to a net source of \$2.2 billion recorded in the corresponding period of 1995-96.

As a result, financial requirements, excluding foreign exchange transactions, amounted to \$4.3 billion in 1996-97, down \$8.3 billion from that recorded in 1995-96.

The Fiscal Monitor

The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. It fulfills this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure on the currency.

In the first six months of 1996-97, foreign exchange transactions provided a net source of funds amounting to \$0.6 billion, compared to a net requirement for funds amounting to \$3.2 billion in the comparable period last year.

As a result, total financial requirements, including foreign exchange transactions, were \$3.7 billion in 1996-97, down \$12.1 billion from the net requirement in 1995-96.

To finance these requirements, the government borrows from the private credit markets and/or draws down its cash reserves. In the first six months of 1996-97, the government's cash requirements

were met entirely through a drawing down of its cash balances (down \$4.3 billion). In addition, the government reduced its borrowings from the private credit markets (unmatured debt transactions) by \$0.7 billion, compared to new borrowings of \$21.1 billion over the same period in 1995-96.

The Debt Servicing and Reduction Account

In June 1991, legislation to establish the Debt Servicing and Reduction Account received Royal Assent. As a result, effective April 1, 1991, all Goods and Services Tax revenue net of the applicable input tax credits, rebates, and the low-income credit, along with the net proceeds from the sale of Crown corporations and gifts to the Crown identified for debt reduction must, by law, go directly to the Debt Servicing and Reduction Account. The funds in this Account can only be used to pay the cost of servicing the public debt and ultimately to reduce the debt. The Account is audited on an annual basis by the Auditor General of Canada.

Table 7

Debt Servicing and Reduction Account

	1991-92	1992-93	1993-94	1994-95	1995-96
	(millions of dollars)				
Gross GST collected	29,564	30,516	32,652	36,715	38,048
Less:					
Refunds and rebates	11,330	12,138	14,271	17,112	18,874
Quarterly low-income tax credit	2,262	2,503	2,685	2,816	2,799
Net GST	15,168	14,868	15,696	16,787	16,374
GST penalties and interest received	19	71	90	129	135
Gains from wind-up of interest in Crown corporations/disposal of shares in Crown corporations	2	110			325
Gifts to the Crown	0.4	0.1	0.2	0.5	0.3
Proceeds to the DSRA	15,190	15,050	15,786	16,916	16,835

Figures for 1991-92, 1992-93, 1993-94, 1994-95, and 1995-96 are from the *Public Accounts of Canada*.

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November 1996



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Financial results for October 1996

Deficit declines \$2.4 billion in October 1996

The deficit in October 1996 was estimated at \$0.5 billion, down \$2.4 billion from October 1995. The year-over-year improvement reflects higher budgetary revenues (up \$2.0 billion). Program spending declined by \$0.5 billion.

- Most of the increase in budgetary revenues was attributable to the gross proceeds (\$1.5 billion) from the sale of the Air Navigation System to NAVCAN, as announced in the February 1995 budget. The net impact of this sale on the 1996-97 deficit will be lower, once the net costs of this transaction are fully taken into account. Corporate income tax collections were up strongly while personal income tax collections were relatively weak, largely due to the slippage of receipts from October 1996 into November 1996. Goods and Services Tax collections were lower on a year-over-year basis, as higher refunds/rebates offset the growth in gross collections. The reclassification of the Air Transport Tax from program spending to budgetary revenues, effective April 1996, accounts for most of the increase in other excise taxes and duties.
- The decline in program spending primarily reflects the impact of the restraint measures introduced in the 1994 and 1995 budgets.
- Public debt charges were virtually unchanged from the October 1995 level, as the impact of lower interest rates was largely offset by adjustments relating to previous months.

Deficit for April 1996 to October 1996 down by \$10.1 billion

Over the April to October period, the deficit, at \$7.5 billion, was \$10.1 billion lower than in the same period in 1995-96.

- Budgetary revenues were up \$5.9 billion or 8.3 per cent, on a year-over-year basis. This increase in collections reflected strong growth in income taxes (up 8.9 per cent, or \$3.7 billion) and higher sales and excise taxes (up 6.9 per cent or \$1.0 billion), and an increase in non-tax revenues (up \$1.9 billion or 61.1 per cent), primarily reflecting the one-time gain related to asset sales. Employment insurance contributions declined (down 6.2 per cent), due to lower premium rates in 1996 and the lowering of the applicable earnings base on which premiums are calculated.
- Program spending declined by \$3.5 billion or 5.7 per cent. The decline in program spending primarily reflects the impact of the restraint measures introduced in the 1994 and 1995 budgets.
- Public debt charges were down \$0.8 billion, or 2.8 per cent. This reflects the decline in interest rates, especially short-term rates. Fiscal restraint by the federal and provincial governments and continued low inflation have provided the necessary conditions for interest rates to come down.

The results to date cannot be used to extrapolate what the deficit outcome will be for the year as a whole, as part of the improvement to date is attributable to developments unique to the first quarter of 1996-97 and the manner in which certain restraint and asset sale measures are being implemented. However, the deficit results clearly suggest that the deficit target for 1996-97 will be met and possibly bettered.



The Fiscal Monitor

Table 1

Summary statement of financial transactions¹

	October		April to October	
	1995	1996	1995-96	1996-97
(in millions of dollars)				
Budgetary transactions				
Revenues	10,104	12,080	70,787	76,654
Program spending	-9,197	-8,746	-61,046	-57,561
Operating balance	907	3,334	9,741	19,093
Public debt charges	-3,848	-3,830	-27,359	-26,593
Deficit	-2,941	-496	-17,618	-7,500
Non-budgetary transactions	1,349	344	3,511	3,102
Financial requirements (excluding foreign exchange transactions)	-1,592	-152	-14,107	-4,398
Foreign exchange transactions	3,201	-1,457	623	-1,127
Financial requirements	1,609	-1,609	-13,484	-5,525
Unmatured debt transactions	585	45	21,074	-355

Note: Data compiled by the Receiver General of Canada.

¹ (+) indicates a source of funds, while (-) indicates a requirement for funds.

Table 2

Detailed statement of budgetary transactions – Revenues

	October		April to October	
	1995	1996	1995-96	1996-97
(in millions of dollars)				
Income taxes				
Personal income tax	4,721	4,782	34,665	37,225
Corporate income tax	832	1,191	6,268	7,287
Other income tax revenue	155	143	1,078	1,225
Total income tax	5,708	6,116	42,011	45,737
Employment insurance contributions	1,673	1,594	11,706	10,981
Excise taxes and duties				
Goods and Services Tax	1,471	1,409	8,255	8,832
Customs import duties	257	264	1,684	1,40
Sales and excise taxes	605	721	4,016	4,677
Total excise taxes/duties	2,333	2,394	13,955	14,917
Total tax revenue	9,714	10,104	67,672	71,635
Non-tax revenue	390	1,976	3,115	5,019
Total budgetary revenues	10,104	12,080	70,787	76,654

The Fiscal Monitor

Table 3

Detailed statement of budgetary transactions – Expenditures

	October		April to October	
	1995	1996	1995-96	1996-97
(in millions of dollars)				
Transfer payments to:				
Persons				
Elderly benefits	1,770	1,811	12,158	12,476
Employment insurance benefits	938	971	7,045	6,919
Other	112	118	817	794
Total	2,820	2,900	20,020	20,189
Other levels of government				
Canada Health and Social Transfer	1,958	1,267	12,116	8,791
Fiscal transfers	949	783	5,983	5,919
Alternative payments for standing programs	-163	-167	-1,141	-1,180
Total	2,744	1,883	16,958	13,530
Other				
Agricultural subsidies	13	69	197	380
Indians and Inuit programs	242	239	2,222	2,222
Regional development	51	43	196	198
Science and Technology	180	130	643	523
International assistance	155	147	844	82
Other	435	419	2,800	2,375
Total	1,076	1,047	6,902	6,523
Total transfers	6,640	5,830	43,880	40,24
Payments to Crown corporations	611	380	2,719	2,323
Operating and capital expenditures				
Defence	841	755	5,327	4,879
All other departmental expenditures	1,105	1,781	9,120	10,11
Total	1,946	2,536	14,447	14,996
Total program expenditures	9,197	8,746	61,046	57,561
Public debt charges	3,848	3,830	27,359	26,593
Total budgetary expenditures	13,045	12,576	88,405	84,154

Table 4

Non-budgetary transactions

	October		April to October	
	1995	1996	1995-96	1996-97
(in millions of dollars)				
Loans, investments and advances				
Crown corporations	75	3	252	760
Other	884	40	1,027	-293
Total	959	43	1,279	467
Specified purpose accounts				
Canada Pension Plan Account	494	152	1,358	971
Superannuation accounts	-178	-137	3,943	4,146
Other	-138	50	-33	140
Total	178	65	5,268	5,257
Other transactions	212	236	-3,306	-2,622
Total non-budgetary transactions	1,349	344	3,511	3,102

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Table 5

Foreign exchange and unmatured debt transactions

	October		April to October	
	1995	1996	1995-96	1996-97
	(in millions of dollars)			
Foreign exchange transactions				
Net international reserves	3,201	-1,457	623	-1,127
Unmatured debt transactions				
Marketable bonds	1,548	1,775	24,206	15,353
Canada Savings Bonds	-424	-345	-2,537	-1,82
Treasury bills		-2,400	3,250	-16,300
Other	-577	952	-4,708	1,561
Subtotal	547	-18	20,211	-1,208
<i>Less:</i>				
Government's holding of unmatured debt	38	63	863	853
Total unmatured debt transactions	585	45	21,074	-355

Note: Unmatured debt payable in foreign currencies is now included as part of unmatured debt transactions and not Foreign exchange transactions. This is consistent with the *Annual Financial Report* for 1995-96.

Table 6

Cash, unmatured debt and debt balances

	at October 31	
	1995	1996
	(in millions of dollars)	
Cash balances at end of period		
In Canadian dollars	9,330	2,662
In foreign currencies	153	2
Total cash balance	9,483	2,664
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	246,030	268,118
Canada Savings Bonds	28,849	29,606
Treasury bills	167,700	149,800
Other	3,548	3,47
Subtotal	446,127	450,99
<i>Less:</i>		
Government's holdings of unmatured debt	131	18
Total	445,996	450,814
Payable in foreign currencies		
Marketable bonds	11,797	9,514
Notes and loans	0	1,87
Canada bills	4,278	6,98
Subtotal	16,075	18,378
<i>Less:</i>		
Government's holdings of unmatured debt	0	
Total unmatured debt	462,071	469,192

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December 1996



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Financial results for November 1996

Deficit Declines \$1.0 billion in November 1996

The deficit in November 1996 was estimated at \$0.6 billion, down \$1.0 billion from November 1995. The year-over-year improvement reflects lower program spending (down \$0.6 billion), lower public debt charges (down \$0.3 billion) and higher budgetary revenues (up \$0.2 billion).

- The decline in program spending primarily reflected the impact of the restraint measures introduced in the 1994 and 1995 budgets.
- The decline in public debt charges was attributable to the impact of lower interest rates.
- Within budgetary revenues, higher personal income tax collections and employment insurance (E.I.) premiums were largely offset by lower Goods and Services Tax (GST) collections. The increase in E.I. premiums reflected developments in November 1995, as recoveries from the E.I. Account due to overpayments relating to taxation year 1994 dampened net collections in that month. The decline in GST collections was due to lower gross receipts and an increase in refunds and rebates. The reclassification of the Air Transport Tax from program spending to budgetary revenues, effective April 1996, accounted for most of the increase in other excise taxes and duties.

Deficit for April 1996 to November 1996 down by \$11.1 billion

Over the April to November period, the deficit, at \$8.1 billion, was \$11.1 billion lower than in the same period in 1995-96.

- Budgetary revenues were up \$6.0 billion or 7.4 per cent, on a year-over-year basis. This increase in collections reflected strong growth in income taxes (up 8.3 per cent, or \$4.0 billion), largely due to higher personal income taxes paid on filing pertaining to the 1995 taxation year and the timing of corporate income tax receipts, and higher non-tax revenues (up \$1.9 billion), primarily reflecting the gross proceeds from the sale of the Air Navigation System. Excise taxes and duties, which include the GST, were up 3.3 per cent or \$0.5 billion. Most of this increase was due to the reclassification of the Air Transport Tax to budgetary revenues. Employment insurance contributions declined (down 3.3 per cent), due to lower premium rates in 1996 and the lowering of the applicable earnings base on which premiums are calculated.
- Program spending declined by \$4.1 billion or 5.8 per cent. The decline in program spending primarily reflected the impact of the restraint measures introduced in the 1994 and 1995 budgets. However, part of the decline to date was also due to timing factors, including the manner in which certain restraint measures are being implemented.
- Public debt charges were down \$1.0 billion, or 3.3 per cent. Fiscal restraint by the federal and provincial governments and continued low inflation have provided the necessary conditions for interest rates to come down.
- The results to date cannot be used to extrapolate what the deficit outcome will be for the year as a whole, as part of the improvement to date is attributable to developments unique to the first quarter of 1996-97 and the manner in which certain restraint and asset sale measures are being implemented. However, the deficit results to date clearly suggest that the deficit target for 1996-97 will be met and possibly bettered.



The Fiscal Monitor

Table 5

Foreign exchange and unmatured debt transactions

	November		April to November	
	1995	1996	1995-96	1996-97
(in millions of dollars)				
Foreign exchange transactions				
Net international reserves	-791	-2,653	-168	-3,780
Unmatured debt transactions				
Marketable bonds	900	6,643	25,106	21,996
Canada Savings Bonds	3,680	5,057	1,143	3,235
Treasury bills	-3,800	-7,800	-550	-24,100
Other	379	427	-4,327	1,989
Subtotal	1,159	4,327	21,372	3,120
<i>Less:</i>				
Government's holding of unmatured debt	-1,346	-1,308	-483	-455
Total unmatured debt transactions	-187	3,019	20,889	2,665

Note: Unmatured debt payable in foreign currencies is now included as part of unmatured debt transactions and not Foreign exchange transactions. This is consistent with the *Annual Financial Report* for 1995-96.

Table 6

Cash, unmatured debt and debt balances

	at November 30	
	1995	1996
(in millions of dollars)		
Cash balances at end of period		
In Canadian dollars	7,205	3,659
In foreign currencies	971	15
Total cash balance	8,176	3,674
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	247,630	272,018
Canada Savings Bonds	32,529	34,663
Treasury bills	163,900	142,000
Other	4,079	3,786
Subtotal	448,138	452,467
<i>Less:</i>		
Government's holdings of unmatured debt	1,477	1,490
Total	446,661	450,977
Payable in foreign currencies		
Marketable bonds	11,097	12,257
Notes and loans	0	2,079
Canada bills	4,127	6,897
Subtotal	15,224	21,233
<i>Less:</i>		
Government's holdings of unmatured debt	0	0
Total unmatured debt	461,885	472,210

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Highlights of financial results for December 1996

Surplus of \$2.2 billion reported in December 1996

A surplus of \$2.2 billion was reported in December 1996, compared to a surplus of \$0.1 billion in December 1995.

- Over half the increase in the surplus was attributable to timing factors, primarily affecting revenues, resulting in an overstatement of financial improvement in December 1996. This will be unwound over the balance of the 1996-97 fiscal year.

Deficit for April 1996 to December 1996 down by \$13.2 billion

Over the nine-month period (April to December), the deficit stood at \$5.9 billion, down \$13.2 billion from the same period in 1995-96.

- Budgetary revenues were up \$7.3 billion or 7.7 per cent, on a year-over-year basis. A significant part of this improvement was due to special factors which overstate the underlying trend in budgetary revenues.
- Program spending was down \$4.5 billion or 5.8 per cent, primarily reflecting the impact of the restraint measures introduced in the 1994 and 1995 budgets.
- Public debt charges were down by \$1.4 billion or 4.0 per cent. This reflected declines in interest rates, especially short-term rates.

Deficit for 1996-97 expected to be at least \$5.3 billion under target

Timing factors with respect to the receipt of revenues and the manner by which certain restraint measures are being implemented overstate the actual extent of improvement in the deficit. As a result, the deficit over the remaining three months of 1996-97 and in the end-of-year accounting period is expected to be higher than over the same period last year.

As indicated in the 1997 budget, the deficit for the year as a whole is now estimated at no more than \$19.0 billion – at least \$5.3 billion below target. The target for 1996-97 was based on prudent planning assumptions, backed by a \$2.5 billion Contingency Reserve. The latter can only be used to cover risks arising from unpredictable events; it cannot be used to finance new policy initiatives. Credible fiscal restraint by the federal and provincial governments and continued low inflation have provided the necessary conditions for interest rates to come down to levels much lower than assumed at the time of the 1996 budget. As a result, public debt charges are expected to be \$2.3 billion lower than projected in the March 1996 budget. This, in combination with strict control over program spending, has meant that the Contingency Reserve will not be required for 1996-97 – the third consecutive year in which this has occurred.

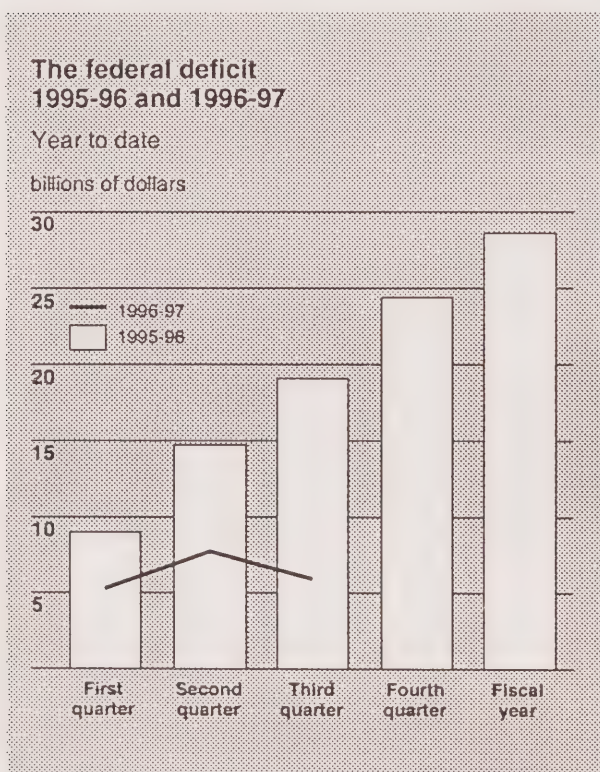
The Fiscal Monitor

Table 1

Summary statement of transactions

	December		April to December	
	1995	1996	1995-96	1996-97
(millions of dollars)				
Budgetary transactions				
Revenues	12,946	14,173	94,562	101,830
Program spending	-8,764	-8,344	-78,457	-73,961
Operating surplus	4,182	5,829	16,105	27,869
Public debt charges	-4,034	-3,638	-35,216	-33,795
Deficit/surplus	148	2,191	-19,111	-5,926
Non-budgetary transactions	-1,063	-1,369	3,758	2,994
Financial requirements/source (excluding foreign exchange transactions)	-915	822	-15,353	-2,932
Foreign exchange transactions	1,457	1,573	1,288	-2,206
Total financial requirements/source	542	2,395	-14,065	-5,138
Unmatured debt transactions	-1,333	-914	19,555	1,751

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.



Budgetary revenues up

On a year-over-year basis, budgetary revenues over the April 1996 to December 1996 period increased by \$7.3 billion (7.7 per cent). However, as explained below, about 60 per cent of this increase was attributable to special factors, which overstate the underlying trend in budgetary revenues and the impact on the deficit outcome for the year as a whole.

Personal income tax collections were up 7 per cent, or \$3.2 billion. Over half this increase relates to higher taxes paid on filing, net of refunds, and quarterly installment payments – which were up about 20 per cent. In contrast, deductions from employment income, up about 2 per cent from last year, closely mirror the developments in employment and earnings. Taxes paid on filing in the current fiscal year pertain to developments affecting the 1995 taxation year. The sharp increase in quarterly installment payments was largely due to more taxpayers being required to make installments on income not subject to withholding in 1996 than in 1995. Again, this is largely based on 1995 taxation year liabilities and could result in lower collections when individuals file their 1996 tax returns.

Table 2

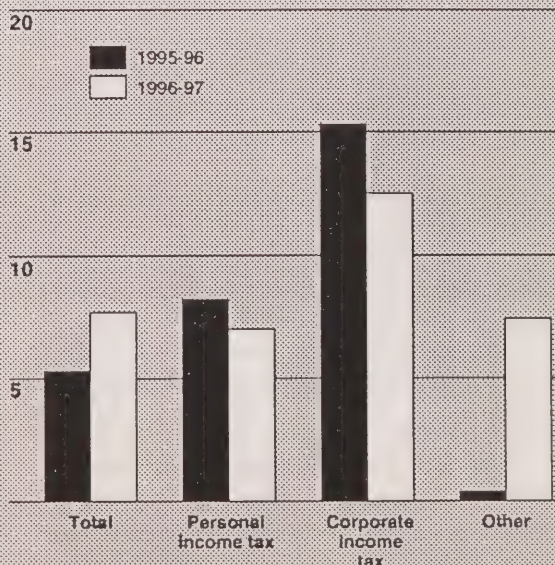
Budgetary revenues

	December		April to December		Per cent change
	1995	1996	1995-96	1996-97	
	(millions of dollars)				(%)
Income taxes					
Personal income tax	6,681	7,146	46,465	49,713	7.0
Corporate income tax	1,411	1,478	8,760	9,859	12.5
Other	148	253	1,404	1,728	23.1
Total income tax	8,240	8,877	56,629	61,300	8.2
Employment insurance contributions	1,340	1,554	14,320	14,105	-1.5
Excise taxes and duties					
Goods and services tax	1,463	2,113	11,643	12,360	6.2
Customs import duties	261	211	2,179	1,874	-14.0
Other excise taxes/duties	679	604	5,300	5,960	12.5
Total excise taxes and duties	2,403	2,928	19,122	20,194	5.6
Total tax revenue	11,983	13,359	90,071	95,599	6.1
Non-tax revenue	963	814	4,491	6,231	38.7
Total budgetary revenues	12,946	14,173	94,562	101,830	7.7

Corporate income tax collections are running well above last year's level. However, most of this increase reflects timing factors relating to the monthly tax remittance procedures for corporations. Corporations are required to file monthly installments, based on either last year's tax liability or their current year's estimated tax liability. Corporations have 60 days after their year end to file their tax return, with any amounts outstanding. As a result, over 30 per cent of corporate income tax collections are received in the months of February and March. Monthly installments during 1995-96 were based on 1994 tax liabilities. But liabilities for taxation year 1995 were substantially higher than those in 1994, with the result that installments during 1995-96 significantly understated the tax liability for the year as a whole. Collections in the settlement period (February and March) of 1995-96 were up 34 per cent over the previous year's settlement period. During the current fiscal year, installment payments are estimated to be more in line with final tax liabilities, as profits in 1996 are up only slightly from 1995. Therefore, the settlement period collections in the current fiscal year are not expected to be as large as those experienced in 1995-96.

Budgetary revenues 1995-96 and 1996-97

April to December
Year-over-year growth
per cent change



The Fiscal Monitor

The decline in employment insurance premiums was largely due to lower premium rates and the lowering of the applicable earnings base on which premiums are calculated.

Total excise taxes and duties were up \$1.1 billion, or 5.6 per cent:

- Half this increase was due to the reclassification of the air transport tax from an offset to program spending to budgetary revenues, effective April 1, 1996. Although this reclassification affects both revenues and program spending, the budgetary deficit is unaffected by this change.
- Net goods and services tax (GST) collections were up 6.2 per cent, or \$0.7 billion, on a year-over-year basis. Over half this increase occurred in April 1996, reflecting abnormally low collections in April 1995, rather than strength in collections in April 1996. Timing factors also account for some remaining increase, as collections in December 1995 were affected by the slippage of some revenues into January 1996. Finally, refunds were abnormally low in December 1996. Given the growth in gross collections, refunds should be higher in future months, thereby dampening net collections accordingly. Excluding the impact of these factors, net collections to date would be little changed from last year.
- Customs import duties declined 14.0 per cent, in part reflecting reductions in tariffs under the Canada-United States Free Trade Agreement.
- Excluding the air transport tax, other excise taxes and duties were up only 2.5 per cent.

The increase in non-tax revenues is more than accounted for by the inclusion of the second tranche of seignorage gains related to the introduction of the \$2 coin (the first tranche was included in the final quarter of 1995-96) and the proceeds from the sale of the air navigation system.

Budgetary expenditures down

Over the period April 1996 to December 1996, total budgetary expenditures, which include both public debt charges and program spending, were down 5.2 per cent, or \$5.9 billion. This decline was due to both lower public debt charges and program spending.

Public debt charges were down \$1.4 billion or 4.0 per cent. This decline reflected lower interest rates, especially short-term rates. Fiscal restraint by federal and provincial governments and continued low inflation have provided the necessary conditions for interest rates to come down substantially.

Program spending declined by \$4.5 billion, or 5.7 per cent, in the April 1996 to December 1996 period, compared to the same period last year. This decline primarily reflects the impact of the 1994 and 1995 budget measures to reduce and restructure federal government spending, affecting all major components of program spending. However, there are a number of other factors which affect the year-over-year decline to date.

This is especially applicable with respect to the decline in transfers to other levels of government. In the February 1994 budget, provincial entitlements under the Canada Assistance Program (CAP) for 1995-96 were frozen at their 1994-95 levels. As a result, monthly CAP payments during 1995-96 were concentrated in the first nine months of the year as payments were made until the provincial ceilings were reached. Effective 1996-97, as announced in the 1995 budget, CAP and Established Programs Financing (EPF) were replaced by a new block grant called the Canada Health and Social Transfer (CHST), with the cash portion paid in equal monthly installments. As a result, the year-over-year changes are affected by not only the restraint measures but also the manner in which transfers to the provinces are being made on a monthly basis. All the expected decline in CHST transfers for the fiscal year as a

Budgetary expenditures 1995-96 and 1996-97

April to December
Year-over-year growth

per cent change

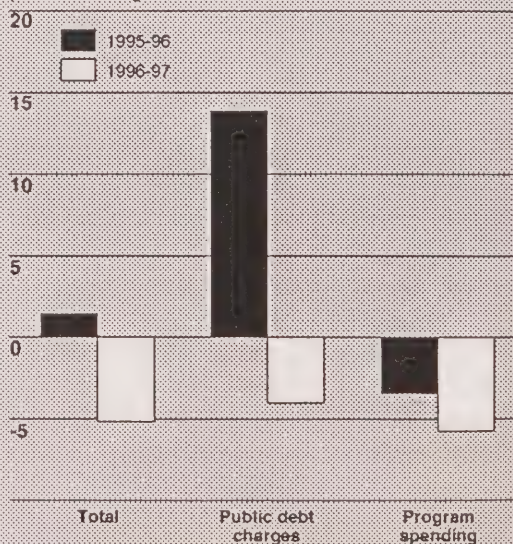


Table 3

Budgetary expenditures

	December		April to December		Per cen change
	1995	1996	1995-96	1996-97	
	(millions of dollars)				(%)
Transfer payments to:					
Persons					
Elderly benefits	1,773	1,809	15,703	16,136	2.8
Employment insurance benefits	1,141	932	9,167	8,597	-6.2
Veterans' pensions/allowances	109	112	1,039	1,017	-2.1
Total	3,023	2,853	25,909	25,750	-0.6
Other levels of government					
Canada Health and Social Transfer	1,341	1,267	14,889	11,325	-23.9
Fiscal transfers	804	725	7,568	7,362	-2.7
Alternative payments for standing programs	-163	-166	-1,467	-1,513	3.1
Total	1,982	1,826	20,990	17,174	-18.2
Other					
Agricultural subsidies	109	100	330	561	70.0
Indian and Inuit programs	273	289	2,739	2,766	1.0
Regional development	54	73	322	300	-6.8
Science and technology	179	181	908	768	-15.4
International assistance	114	143	1,091	1,108	1.6
Other	467	466	3,679	3,275	-11.0
Total	1,196	1,252	9,069	8,778	-3.2
Total transfers	6,201	5,931	55,968	51,702	-7.6
Payments to Crown corporations					
Canadian Broadcasting Corporation	77	58	857	707	-17.5
Canada Mortgage and Housing Corporation	201	173	1,393	1,359	-2.4
Other	123	134	1,095	949	-13.4
Total	401	365	3,345	3,014	-9.9
Operating and capital expenditures					
Defence	747	810	6,931	6,453	-6.9
All other departmental expenditures	1,415	1,238	12,213	12,792	4.7
Total	2,162	2,048	19,144	19,245	0.5
Total program expenditures	8,764	8,344	78,457	73,961	-5.7
Public debt charges	4,034	3,638	35,216	33,795	-4.0
Total budgetary expenditures	12,798	11,982	113,673	107,756	-5.2

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The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. It fulfills this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure on the currency.

In the first nine months of 1996-97, foreign exchange transactions resulted in a net requirement of \$2.2 billion, compared to a net source for funds amounting to \$1.3 billion in the comparable period last year.

As a result, total financial requirements, including foreign exchange transactions, were \$5.1 billion to date in 1996-97, down \$8.9 billion from the net requirement in the same period last year.

To finance these requirements, the government borrows from the private credit markets and/or draws down its cash reserves. In the first nine months of 1996-97, the

government's cash requirements were met through a drawing-down of its cash balances (\$3.4 billion) and borrowings from the private credit markets (unmatured debt transactions) of \$1.8 billion. In the first nine months of 1995-96, net new borrowings amounted to \$19.6 billion.

The Debt Servicing and Reduction Account

In June 1991, legislation to establish the Debt Servicing and Reduction Account (DSRA) received Royal Assent. As a result, effective April 1, 1991, all GST revenue net of the applicable input tax credits, rebates and the low-income credit, along with the net proceeds from the sale of Crown corporations and gifts to the Crown identified for debt reduction, must go directly to the DSRA. The funds in this account can only be used to pay the cost of servicing the public debt and ultimately to reduce the debt. The account is audited on an annual basis by the Auditor General of Canada.

Table 7

Debt Servicing and Reduction Account

	1991-92	1992-93	1993-94	1994-95	1995-96
	(millions of dollars)				
Gross GST collected	29,564	30,516	32,652	36,715	38,048
Less:					
Refunds and rebates	11,330	12,138	14,271	17,112	18,874
Quarterly low-income tax credit	2,262	2,503	2,685	2,816	2,799
Net GST	15,168	14,868	15,696	16,787	16,374
GST penalties and interest received	19	71	90	129	135
Gains from wind-up of interest in Crown corporations/disposal of shares in Crown corporations	2	110			325
Gifts to the Crown	0.4	0.1	0.2	0.5	0.3
Proceeds to the DSRA	15,190	15,050	15,786	16,916	16,835

Figures for 1991-92, 1992-93, 1993-94, 1994-95 and 1995-96 are from the *Public Accounts of Canada*.

Note: Numbers in this newsletter may not add due to rounding.

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February 1997



The Fiscal Monitor

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Financial results for January 1997

Deficit declines \$0.4 billion in January 1997

The deficit in January 1997 was estimated at \$1.4 billion, down \$0.4 billion from January 1996. The year-over-year improvement reflected higher budgetary revenue (up \$0.3 billion) and lower public debt charges (down \$0.2 billion).

- Most of the increase in budgetary revenues was attributable to higher employment insurance (EI) premiums, reflecting the impact of changes to the base on which premiums are levied – from weekly maximum insurable earnings to annual maximum insurable earnings. This results in a one-time increase in receipts from EI premiums in the final quarter of 1996-97. This change, however, does not affect the annual amount of premiums paid. The decline in personal income tax revenues primarily reflected recoveries, in January 1996, from both EI and Canada Pension Plan accounts for overpayments relating to taxation 1994. There were no such recoveries in January 1997. The decline in goods and service tax (GST) collections was attributable to higher refunds. The increase in other excise taxes and duties was attributable to the timing of receipts, as well as the reclassification of the air transport tax, effective April 1996, to budgetary revenues from an offset to program spending.
- The decline in public debt charges was attributable to the impact of lower interest rates.
- Program spending was up slightly, reflecting the timing of payments and the reclassification of the air transport tax from an offset to program spending to budgetary revenues.

Deficit for April 1996 to January 1997 down by \$13.6 billion

Over the April to January period, the deficit, at \$7.3 billion, was \$13.6 billion lower than in the same period in 1995-96.

- Budgetary revenues were up \$7.6 billion or 7.2 per cent, on a year-over-year basis. This increase in collections reflected higher income taxes (up 6.6 per cent, or \$4.2 billion) and non-tax revenue (up \$1.5 billion), the latter primarily reflecting the gross proceeds from the sale of the Air Navigation System. Excise taxes and duties, which include the GST, were up 5.9 per cent or \$1.2 billion. About half of this increase was due to the reclassification of the air transport tax to budgetary revenues. Employment insurance contributions were up 3.8 per cent, as the acceleration in payments, coupled with the impact of repayments last year more than offset the effect of lower premium rates in 1996 and 1997 and the lowering of the applicable earnings base on which premiums are calculated.
- Program spending declined by \$4.5 billion or 5.1 per cent. The decline in program spending primarily reflected the impact of the restraint measure introduced in the 1994 and 1995 budgets. However, part of the decline to date was also due to timing factors, including the manner in which certain restraint measures are being implemented. This is especially applicable to the decline in transfers to other levels of government. Under the Canada Health and Social Transfer (CHST), cash payments are being made in equal monthly installments. In 1995-96, cash payments under the programs replaced by the CHST were concentrated in the first nine months of the fiscal year.
- Public debt charges were down \$1.6 billion, or 4.1 per cent. Fiscal restraint by the federal and provincial governments and continued low inflation have provided the necessary conditions for interest rates to come down.
- As noted in the February 1997 budget, the deficit for 1996-97 is not expected to be any higher than \$19.0 billion. This is down \$5.3 billion from the original deficit target of \$24.3 billion. The financial results to the end of January 1997 are consistent with this revised deficit outcome.



The Fiscal Monitor

Table 1

Summary statement of financial transactions¹

	January		April to January	
	1996	1997	1995-96	1996-97
(in millions of dollars)				
Budgetary transactions				
Revenues	10,854	11,153	105,416	112,983
Program spending	-8,952	-8,982	-87,407	-82,943
Operating balance	1,902	2,171	18,009	30,040
Public debt charges	-3,761	-3,586	-38,978	-37,381
Deficit	-1,859	-1,415	-20,969	-7,341
Non-budgetary transactions	2,140	2,555	5,899	5,549
Financial requirements (excluding foreign exchange transactions)	281	1,140	-15,070	-1,792
Foreign exchange transactions	-3,792	-2,788	-2,504	-4,994
Financial requirements	-3,511	-1,648	-17,574	-6,786
Unmatured debt transactions	-795	-1,431	18,761	319
Change in cash balances	-4,306	-3,079	1,187	-6,467

Note: Data compiled by the Receiver General of Canada.

¹ (+) indicates a source of funds, while (-) indicates a requirement for funds.

Table 2

Detailed statement of budgetary transactions – Revenues

	January		April to January	
	1996	1997	1995-96	1996-97
(in millions of dollars)				
Income taxes				
Personal income tax	5,747	5,257	52,212	54,970
Corporate income tax	1,364	1,334	10,123	11,193
Other income tax revenue	227	301	1,630	2,029
Total income tax	7,338	6,892	63,965	68,192
Employment insurance contributions	1,226	2,038	15,546	16,143
Excise taxes and duties				
Goods and services tax	1,100	924	12,743	13,284
Customs import duties	157	221	2,337	2,095
Sales and excise taxes	523	795	5,823	6,757
Total excise taxes/duties	1,780	1,940	20,903	22,136
Total tax revenues	10,344	10,870	100,414	106,471
Non-tax revenues	510	283	5,002	6,512
Total budgetary revenues	10,854	11,153	105,416	112,983

Table 3

Detailed statement of budgetary transactions – Expenditures

	January		April to January	
	1996	1997	1995-96	1996-97
(in millions of dollars)				
Transfer payments to:				
Persons				
Elderly benefits	1,765	1,798	17,468	17,935
Employment insurance benefits	1,508	1,446	10,675	10,042
Other	119	119	1,158	1,136
Total	3,392	3,363	29,301	29,113
Other levels of government				
Canada Health and Social Transfer	1,321	1,267	16,209	12,592
Fiscal transfers	761	722	8,329	8,084
Alternative Payments for Standing Programs	-163	-166	-1,630	-1,679
Total	1,919	1,823	22,908	18,997
Other				
Agricultural subsidies	109	117	439	678
Indian and Inuit programs	177	231	2,916	2,997
Regional development	95	68	417	368
Science and technology	57	54	964	822
International assistance	173	151	1,263	1,258
Other	529	611	4,208	3,886
Total	1,140	1,232	10,207	10,000
Total transfers	6,451	6,418	62,416	58,119
Payments to Crown corporations	394	381	3,739	3,395
Operating and capital expenditures				
Defence	811	789	7,742	7,242
All other departmental expenditures	1,296	1,394	13,510	14,187
Total	2,107	2,183	21,252	21,429
Total program expenditures	8,952	8,982	87,407	82,943
Public debt charges	3,761	3,586	38,978	37,381
Total budgetary expenditures	12,713	12,568	126,385	120,324

Table 4

Non-budgetary transactions

	January		April to January	
	1996	1997	1995-96	1996-97
(in millions of dollars)				
Loans, investments and advances				
Crown corporations	398	-16	3,408	855
Other	28	4	-187	-406
Total	426	-12	3,221	449
Specified purpose accounts				
Canada Pension Plan Account	-655	-445	-814	-858
Superannuation accounts	-150	-183	6,071	6,413
Other	76	93	203	298
Total	-729	-535	5,460	5,85
Other transactions	2,443	3,102	-2,782	-753
Total non-budgetary transactions	2,140	2,555	5,899	5,549

The Fiscal Monitor

Table 5

Foreign exchange and unmatured debt transactions

	January		April to January	
	1996	1997	1995-96	1996-97
(in millions of dollars)				
Foreign exchange transactions				
Net international reserves	-3,792	-2,788	-2,504	-4,994
Unmatured debt transactions				
Marketable bonds	2,100	2,700	29,656	30,803
Canada Savings Bonds	-354	-222	619	2,740
Treasury bills	-2,500	-4,050	-6,850	-34,950
Other	-147	-24	-4,489	1,904
Subtotal	-901	-1,596	18,936	49
<i>Less:</i>				
Government's holding of unmatured debt	106	165	-175	-178
Total unmatured debt transactions	-795	-1,431	18,761	319

Note: Unmatured debt payable in foreign currencies is now included as part of unmatured debt transactions and not foreign exchange transactions. This is consistent with the *Annual Financial Report* for 1995-96.

Table 6

Cash, unmatured debt and debt balances

	at January 31	
	1996	1997
(in millions of dollars)		
Cash balances at end of period		
In Canadian dollars	3,032	2,042
In foreign currencies	47	34
Total cash balance	3,079	2,076
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	252,180	280,825
Canada Savings Bonds	32,005	34,168
Treasury bills	157,600	131,150
Other	4,011	3,78
Subtotal	445,796	449,92
<i>Less:</i>		
Government's holdings of unmatured debt	1,169	1,212
Total	444,627	448,716
Payable in foreign currencies		
Marketable bonds	11,097	12,257
Notes and loans	0	2,09
Canada bills	4,034	6,79
Subtotal	15,131	21,151
<i>Less:</i>		
Government's holdings of unmatured debt	0	0
Total unmatured debt	459,758	469,867

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The Fiscal Monitor

A Publication of the Department of Finance

Financial results for February 1997

Deficit declines \$1.8 billion in February 1997

The deficit in February 1997 was estimated at \$0.5 billion, down \$1.8 billion from February 1996. The year-over-year improvement primarily reflected higher budgetary revenue (up \$1.4 billion) and lower program spending (down \$0.3 billion) and public debt charges (down \$0.1 billion).

Most of the increase in budgetary revenues reflected the timing of receipts and one-time factors.

- Personal income tax collections were up \$0.7 billion, primarily due to the timing of receipts between February 1997 and March 1997.
- Goods and services tax collections were up \$0.2 billion, as refunds are lagging behind the growth in gross collections. The increase in other excise taxes and duties (\$0.1 billion) was attributable to the reclassification of the air transport tax, effective April 1996, to budgetary revenues from an offset to program spending. This change has no effect on the deficit as it raises revenues and spending by an equivalent amount.
- Employment insurance (EI) premiums were up (\$0.3 billion), largely due to the impact of changes to the base on which premiums are levied.

The decline in program spending was spread throughout most major components, primarily reflecting the impact of the 1994 and 1995 budget

measures. Defence spending was up somewhat, reflecting the timing of payments.

The decline in public debt charges was attributable to the impact of lower interest rates.

Deficit for April 1996 to February 1997 down by \$15.5 billion

Over the April 1996 to February 1997 period, the deficit, at \$7.8 billion, was \$15.5 billion lower than in the same period in 1995-96.

Budgetary revenues were up \$9.0 billion or 7.7 per cent, on a year-over-year basis. However, about \$5 billion of the \$9 billion increase in budgetary revenues was attributable to one-time factors, with the result that the underlying year-over-year increase in revenues is about 3.5 per cent. This increase is in line with the 1996 increase in nominal income of 2.8 per cent.

- Personal income tax collections were up 6.1 per cent or \$3.5 billion. Half of this increase relates to taxes paid on filing, net of refunds, and quarterly installment payments. Taxes paid on filing in 1996-97 pertain to developments affecting the 1995 taxation year. The sharp increase in quarterly installment payments was largely due to more taxpayers being required to make tax installment payments on income not subject to withholding. In previous years, such tax liabilities would be remitted at the time of final tax filing. As such, the higher installment payments represent a one-time acceleration of taxes from 1997-98 into 1996-97. In contrast, deductions from employment income were up only about 2 per cent, in line with the growth in wages and salaries during 1996.



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- Corporate income tax collections were up 11.0 per cent, or \$1.3 billion. However, most of this increase reflects timing factors relating to the monthly remittance procedures for corporations. Corporations are required to file monthly installments based on either last year's tax liability or their current year's estimated tax liability. Corporations have 60 days after their year end to file their tax return, with any amounts outstanding. As most large corporations' taxation year corresponds to the calendar year, over 25 per cent of corporate income tax collections are received in the month of March. Although corporate tax liabilities for the year as a whole are expected to be about the same as in 1995, installment payments during the year were significantly higher than during 1995-96, thereby suggesting a lower March 1997 settlement period.
- Employment insurance premiums were up 5.4 per cent, or \$0.9 billion. This increase was attributable to changes to the base on which premiums are levied, from weekly maximum insurable earnings to annual maximum insurable earnings, effective January 1, 1997. This results in a one-time increase in receipts in the final quarter of 1996-97. This change does not affect the amount paid by employees and employers for the calendar year as a whole. Those employees earnings up to the annual maximum insurable earnings are not affected, while those earning above the maximum will pay more of their premium liability earlier in the calendar year and less at the end.
- Goods and services tax collections were up 4.9 per cent, or \$0.7 billion. Over half of this increase occurred in April 1996, reflecting abnormally low collections in April 1995, rather than strength in collections in 1996. In addition, refunds are lagging behind the growth in gross collections, which could adversely affect net collections in months to come.

- The increase in sales and excise taxes (up 16.2 per cent, or \$1.0 billion) was largely attributable to a classification change related to the air transport tax. Prior to April 1996, receipts from this tax were netted against costs of running the airports and included as part of program spending. With the sale of the Air Navigation System, these receipts are now part of sales and excise taxes. Since this reclassification affects both revenues and program spending, the deficit is unaffected.
- Non-tax revenues were up 23.5 per cent, or \$1.3 billion. All of this increase is more than accounted for by the proceeds from the sale of the Air Navigation System and the inclusion of the second tranche of seignorage gains related to the introduction of the \$2 coin (the first tranche was included in March 1996).

Program spending declined by \$4.8 billion or 5.0 per cent. The decline in program spending primarily reflected the impact of the restraint measures introduced in the 1994 and 1995 budgets.

- Major transfers to persons were down \$0.3 billion, or 1.1 per cent. All of this decline was attributable to lower employment insurance benefits, primarily due to the impact of reform measures. Elderly benefit payments were up 2.7 per cent.
- In the February 1995 budget, the government announced a major restructuring of its transfers to the provinces, through the introduction of the Canada Health and Social Transfer (CHST). This block-funded transfer replaced the Canada Assistance Plan and Established Programs Financing programs. In order to give provinces time to plan for these changes, total entitlements, including both tax points and cash transfers – the most appropriate measure of federal support – were not affected in 1995-96. As a result, total entitlements under the CHST, equalization, and other transfers to provinces and territories increased by 1.3 per cent in 1995-96. These entitlements,

however, were reduced by 7.7 per cent in 1996-97. This is smaller than the reduction in cash transfers, which are down 16.1 per cent, or \$4.0 billion to the end of February 1997, compared to the same period last year. The larger reduction in cash transfers is because the value of the tax point transfer – which makes up a large part of the entitlement – grows in line with the growth in the applicable tax basis. The tax point transfer involves the transfer of federal “tax room” to the provinces, and allows the provinces to increase their tax rates by an equivalent amount, with no impact on the taxpayer. The cash transfer, therefore, is the difference between the entitlement and an increasing value in the tax point transfer. Being the residual, the cash transfer, which affects program spending, is determined not only by the change in entitlements, but also by the growth in the value of the tax point transfer.

Excluding major transfers to persons and other levels of government, all other spending declined by \$0.4 billion, or 1.0 per cent. Adjusting these results to remove the impact of the April 1996 reclassification of the air transport tax to budgetary revenues results in a decline of 2.6 per cent. This component includes subsidy and transfer payments, payments to Crown corporations, and the operating and capital costs of departments, including defence. Unlike the reduction to entitlements to other levels of government, which took effect in 1996-97, this component of program spending declined by 10 per cent in 1995-96, reflecting the major reductions

announced in the 1994 and 1995 budgets.

With the major reductions to this component of spending coming earlier in the process, the rate of decline moderates in 1996-97.

Public debt charges were down \$1.7 billion, or 4.0 per cent. Fiscal restraint by the federal and provincial governments and continued low inflation have provided the necessary conditions for interest rates to come down.

Financial requirements, excluding foreign exchange transactions, provided the government with a net source of funds of about \$1 billion to the end of February 1997. This was attributable to the improvement in the deficit and a somewhat higher net source of funds from non-budgetary transactions. Exchange fund transactions resulted in a net requirement of \$5.5 billion, with the result that total financial requirements amounted to \$4.5 billion, down \$12.2 billion from the same period in 1995-96. This was financed through unmatured debt transactions of \$0.8 billion and a drawing down of cash balances (\$3.7 billion).

The February 1997 budget stated that the deficit for 1996-97 would be no higher than \$19 billion, down \$5.3 billion from the original deficit target of \$24.3 billion. The financial results to the end of February 1997 confirm that the final outcome will be below \$19 billion. Still to come are the financial results for March 1997 and the end-of-year accounting period adjustments. Audited deficit results for 1996-97 will be available in the fall of 1997 with the release of the *Annual Financial Report*.

Table 5

Foreign exchange and unmatured debt transactions

	February		April to February	
	1996	1997	1995-96	1996-97
(in millions of dollars)				
Foreign exchange transactions				
Net international reserves	948	-472	-1,556	-5,466
Unmatured debt transactions				
Marketable bonds	-1,449	3,600	28,207	34,403
Canada Savings Bonds	-309	-405	309	2,335
Treasury bills	2,800	-2,750	-4,050	-37,700
Other	479	-84	-4,010	1,820
Subtotal	1,521	361	20,456	858
<i>Less:</i>				
Government's holding of unmatured debt	81	135	-94	-43
Total unmatured debt transactions	1,602	496	20,362	815

Note: Unmatured debt payable in foreign currencies is now included as part of unmatured debt transactions and not foreign exchange transactions. This is consistent with the *Annual Financial Report* for 1995-96.

Table 6

Cash, unmatured debt and debt balances

	at end of February	
	1996	1997
(in millions of dollars)		
Cash balances at end of period		
In Canadian dollars	5,298	4,862
In foreign currencies	241	5
Total cash balance	5,539	4,867
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	252,062	284,425
Canada Savings Bonds	31,696	33,763
Treasury bills	160,400	128,400
Other	3,479	3,469
Subtotal	447,637	450,057
<i>Less:</i>		
Government's holdings of unmatured debt	1,088	1,076
Total	446,549	448,981
Payable in foreign currencies		
Marketable bonds	9,698	12,257
Notes and loans	0	2,099
Canada bills	5,045	7,026
Subtotal	14,743	21,382
<i>Less:</i>		
Government's holdings of unmatured debt	0	0
Total unmatured debt	461,292	470,363

Note: Numbers in this newsletter may not add due to rounding.

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April 1997



The Fiscal Monitor

Table 1

Summary statement of financial transactions¹

	February		April to February	
	1996	1997	1995-96	1996-97
(in millions of dollars)				
Budgetary transactions				
Revenues	10,509	11,906	115,925	124,889
Program spending	-9,134	-8,820	-96,542	-91,764
Operating balance	1,375	3,086	19,383	33,125
Public debt charges	-3,686	-3,571	-42,664	-40,952
Deficit	-2,311	-485	-23,281	-7,827
Non-budgetary transactions	2,222	3,252	8,119	8,800
Financial requirements (excluding foreign exchange transactions)	-89	2,767	-15,162	973
Foreign exchange transactions	948	-472	-1,556	-5,466
Financial requirements	859	2,295	-16,718	-4,493
Unmatured debt transactions	1,602	496	20,362	815
Change in cash balances	2,461	2,791	3,644	-3,676

Note: Data compiled by the Receiver General of Canada.

¹ (+) indicates a source of funds, while (-) indicates a requirement for funds.

Table 2

Detailed statement of budgetary transactions – Revenues

	February		April to February	
	1996	1997	1995-96	1996-97
(in millions of dollars)				
Income taxes				
Personal income tax	4,561	5,257	56,773	60,226
Corporate income tax	1,566	1,778	11,689	12,971
Other income tax revenue	148	246	1,779	2,275
Total income tax	6,275	7,281	70,241	75,472
Employment insurance contributions	1,468	1,791	17,014	17,934
Excise taxes and duties				
Goods and services tax	1,453	1,609	14,197	14,893
Customs import duties	192	204	2,528	2,299
Sales and excise taxes	571	676	6,394	7,432
Total excise taxes/duties	2,216	2,489	23,119	24,624
Total tax revenues	9,959	11,561	110,374	118,030
Non-tax revenues	550	345	5,551	6,859
Total budgetary revenues	10,509	11,906	115,925	124,889

Table 3

Detailed statement of budgetary transactions – Expenditures

	February		April to February	
	1996	1997	1995-96	1996-97
(in millions of dollars)				
Transfer payments to:				
Persons				
Elderly benefits	1,774	1,819	19,242	19,754
Employment insurance benefits	1,363	1,133	12,037	11,176
Total	3,137	2,952	34,510	34,700
Other levels of government				
Canada Health and Social Transfer	1,336	1,267	17,545	13,860
Fiscal transfers	835	788	9,164	8,872
Alternative Payments for Standing Programs	-163	-166	-1,793	-1,845
Total	2,008	1,889	24,916	20,887
Other				
Agricultural subsidies	106	136	545	814
Indian and Inuit programs	210	210	3,126	3,207
Regional development	103	58	520	426
Science and technology	148	141	1,113	963
International assistance	242	192	1,505	1,451
Veterans pensions and allowances	113	114	1,271	1,250
Other	491	654	4,699	4,540
Total	1,413	1,505	12,779	12,649
Total transfers	6,558	6,346	68,974	64,468
Payments to Crown corporations	429	314	4,167	3,709
Operating and capital expenditures				
Defence	749	782	8,491	8,024
All other departmental expenditures	1,398	1,378	14,910	15,563
Total	2,147	2,160	23,401	23,587
Total program expenditures	9,134	8,820	96,542	91,764
Public debt charges	3,686	3,571	42,664	40,952
Total budgetary expenditures	12,820	12,391	139,206	132,716

Table 4

Non-budgetary transactions

	February		April to February	
	1996	1997	1995-96	1996-97
(in millions of dollars)				
Loans, investments and advances				
Crown corporations	148	23	3,556	878
Other	-70	-5	-257	-411
Total	78	18	3,299	467
Specified purpose accounts				
Canada Pension Plan Account	633	509	-181	-350
Superannuation accounts	-236	-232	5,835	6,181
Other	94	143	296	441
Total	491	420	5,950	6,272
Other transactions	1,653	2,814	-1,130	2,061
Total non-budgetary transactions	2,222	3,252	8,119	8,800

The Fiscal Monitor

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Highlights of financial results for March 1997

Deficit of \$1.8 billion reported in March 1997

The deficit for March 1997 was \$1.8 billion, up \$0.6 billion from March 1996. This year-over-year increase was largely attributable to higher personal income tax refunds (\$0.7 billion), which depressed net personal income tax collections, lower corporate income tax collections (\$0.3 billion) and the inclusion of the funding for the Canada Foundation for Innovation (\$0.8 billion), as announced in the February 1997 budget. However, offsetting much of the impact of these factors on the deficit were unusually high goods and service tax (GST) collections (\$0.8 billion), primarily reflecting the fact that last year a significant portion of GST revenues that accrued in March were reported in the end-of-year accounting period.

Deficit for 1996-97

Year to date

Over the period April 1996 to March 1997, the deficit stood at \$9.6 billion, down \$14.8 billion from the same period in 1995-96.

- Budgetary revenues were up \$8.9 billion or 6.9 per cent, on a year-over-year basis. Over half of this improvement was due to special factors, such as the higher personal income installment payments, the acceleration of employment insurance premium payments, the sale of the air navigation system, and the timing of GST collections.
- Program spending was down \$4.0 billion or 3.8 per cent, primarily reflecting the impact of the restraint measures introduced in the 1994 and 1995 budgets.
- Public debt charges were down by \$1.9 billion, or 4.1 per cent. This reflected declines in interest rates, especially short-term rates.

Final results to come in the fall

The financial results for the April 1996 to March 1997 period are not the final results for the 1996-97 fiscal year. Still to come are the regular end-of-year accounting adjustments.

- Consistent with government accounting principles, these "end-of-year accounting" adjustments incorporate increases to program spending to include the costs of liabilities incurred during the fiscal year for which no payments were made in 1996-97. Adjustments are also made to budgetary revenues, primarily to reflect cash-in-transit at year end.
- The deficit impact of these "end-of-year accounting" adjustments over the last three fiscal years has ranged from \$4 billion to \$6½ billion.
- The results to the end of March 1997 suggest that the deficit for the year as a whole will be no higher than \$16 billion.

The final audited financial results will be available in the *Annual Financial Report*, scheduled for release in the fall of 1997.

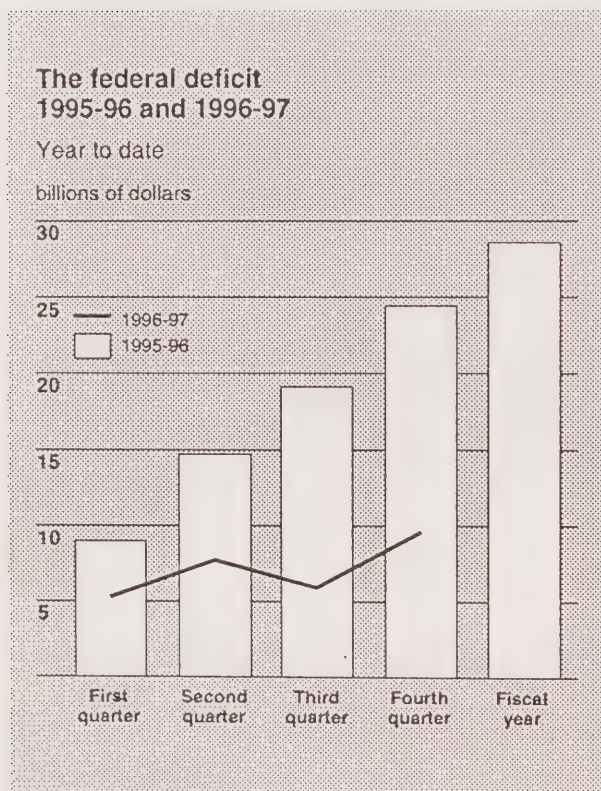
The Fiscal Monitor

Table 1

Summary statement of transactions

	March		April to March	
	1996	1997	1995-96	1996-97
(millions of dollars)				
Budgetary transactions				
Revenues	12,507	12,422	128,432	137,312
Program spending	-9,696	-10,434	-106,239	-102,198
Operating surplus	2,811	1,988	22,193	35,114
Public debt charges	-3,991	-3,798	-46,654	-44,750
Deficit/surplus	-1,180	-1,810	-24,461	-9,636
Non-budgetary transactions	-586	1,967	7,532	10,768
Financial requirements/source (excluding foreign exchange transactions)	-1,766	157	-16,929	1,132
Foreign exchange transactions	-3,182	-2,058	-4,738	-7,524
Total financial requirements	-4,948	-1,901	-21,667	-6,392
Unmatured debt transactions	8,168	6,377	28,533	7,192

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.



Budgetary revenues up \$8.9 billion

Over the April 1996 to March 1997 period, budgetary revenues were up \$8.9 billion or 6.9 per cent, on a year-over-year basis. However, more than half of this increase was attributable to one-time factors, with the result that the underlying year-over-year increase in revenues is about 3 per cent. This increase is in line with the 1996 increase in nominal income of 2.8 per cent.

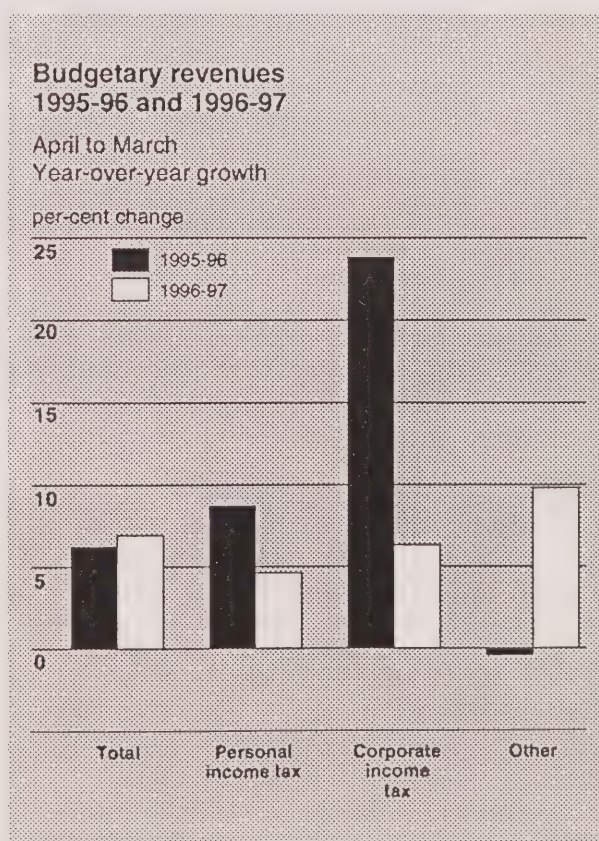
- Personal income tax collections were up 4.6 per cent or \$2.8 billion. Over half of this increase relates to taxes paid on filing and quarterly installment payments. Taxes paid on filing in 1996-97 pertain to developments affecting the 1995 taxation year. The sharp increase in quarterly installment payments was largely due to more taxpayers being required to make tax installment payments on income not subject to withholding. In previous years, such tax liabilities would be remitted at the time of final tax filing. As such, the higher installment payments represent a one-time acceleration of taxes from 1997-98 into 1996-97. Partially offsetting the impact of these factors were higher refunds processed in March 1997 relating to the 1996 taxation year, resulting from higher average refunds rather than more returns being processed. In contrast, deductions from employment income were up only about 2 per cent, in line with the growth in wages and salaries during 1996.

Table 2

Budgetary revenues

	March		April to March		Per cent change
	1996	1997	1995-96	1996-97	
	(millions of dollars)				(%)
Income taxes					
Personal income tax	3,650	2,948	60,423	63,175	4.6
Corporate income tax	3,459	3,131	15,148	16,102	6.3
Other	150	175	1,928	2,120	0.7
Total income tax	7,259	6,254	77,499	81,726	5.5
Employment insurance premiums	1,466	1,866	18,480	19,800	7.1
Excise taxes and duties					
Goods and services tax	1,014	1,765	15,211	16,658	9.5
Customs import duties	276	204	2,805	2,503	-10.8
Other excise taxes/duties	702	595	7,095	8,028	13.2
Total excise taxes and duties	1,992	2,564	25,111	27,189	8.3
Total tax revenues	10,717	10,684	121,090	128,715	6.3
Non-tax revenues	1,790	1,738	7,342	8,597	17.1
Total budgetary revenues	12,507	12,422	128,432	137,312	6.9

- Corporate income tax collections were up 6.3 per cent, or \$1.0 billion. About 25 per cent of net collections are received in March, given the remittance regulations for large corporations. Although March 1997 collections were only marginally lower than those reported in March 1996, the high monthly installment payments during 1996-97 resulted in an increase in net collections for the year as whole. The growth in net collections to date significantly exceeded the reported growth in corporate tax liabilities which, for 1996, was about the same as in 1995.
- Employment insurance premiums were up 7.1 per cent, or \$1.3 billion. However, most of this increase was attributable to changes to the base on which premiums are levied, from weekly maximum insurable earnings to annual maximum insurable earnings, effective January 1, 1997. This results in a one-time increase of about \$1 billion in receipts in the final quarter of 1996-97. This change does not affect the amount paid by employees and employers for the calendar year as a whole. Those employees earning up to the annual maximum insurable earnings are not affected, while those earning above the maximum will pay more of their premium liability earlier in the calendar year and less at the end.
- Net GST collections were up 9.5 per cent, or \$1.4 billion. Over half of this increase occurred in March 1997, primarily reflecting the timing of gross



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receipts. The remittance date for filing is the last day of the month or the first working date following a holiday. In March 1996, the filing date fell on a Sunday, with the result that a large portion of the March 1996 collections were received in early April 1996 and recorded in the 1995-96 end-of-year accounting period. Although the filing date fell on Easter Monday this year, most financial institutions were open, such that collections were received on that day. As a result, net collections were up 74 per cent in March 1997 compared to March 1996. Once the end-of-year accounting periods are included, the annual growth in GST collections should be more in line with the growth in domestic demand of about 3 per cent.

- The increase in sales and excise taxes (up 13.2 per cent, or \$0.9 billion) was largely attributable to a classification change related to the air transport tax. Prior to April 1996, receipts from this tax were netted against costs of running the airports and netted against program spending. With the sale of the air navigation system, these receipts are now part of sales and excise taxes. Since this reclassification affects both revenues and program spending, the deficit is unaffected by this change.
- Non-tax revenues were up 17.1 per cent, or \$1.3 billion. However, this increase is more than accounted for by the net proceeds from the sale of the air navigation system.

Budgetary expenditures down \$5.9 billion

Over the April 1996 to March 1997 period, total budgetary expenditures, which include both public debt charges and program spending, were down \$5.9 billion, or 3.9 per cent. This decline was due to both lower public debt charges and lower program spending.

Public debt charges down \$1.9 billion

Public debt charges were down \$1.9 billion or 4.1 per cent. This decline reflected lower interest rates, especially short-term rates. Fiscal restraint by federal and provincial governments and continued low inflation have provided the necessary conditions for interest rates to come down.

Program spending down \$4.0 billion

Program spending declined by \$4.0 billion, or 3.8 per cent in the April 1996 to March 1997 period, compared to the same period last year. This decline primarily reflects the impact of the 1994 and 1995 budget measures to reduce and restructure federal government spending, affecting all major components of program spending.

- Major transfers to persons (elderly and employment insurance benefits) were down \$0.5 billion or 1.5 per cent. All of this decline was due to lower employment insurance benefits, primarily due to the impact of reform measures. Elderly benefits were

up 2.7 per cent, reflecting increases in the number of people receiving benefits and increases in the average benefit, which is fully indexed to changes in the consumer price index.

- In the February 1995 budget, the government announced that, on April 1, 1996, the Canada Health and Social Transfer (CHST) would replace the Canada Assistance Plan and Established Programs Financing. In order to give provinces time to plan for these changes, total entitlements – the most appropriate measure of federal support – were largely unaffected in 1995-96. As a result, total entitlements under the CHST, equalization and other transfers to provinces and territories increased by 1.3 per cent in 1995-96. In 1996-97, total transfer entitlements were reduced by 7.7 per cent in 1996-97. It is important to note that transfers are delivered to provincial governments in two fashions – tax transfers and cash transfers. The tax transfer component represents the value of “tax room” which the federal government made available to provincial governments by reducing federal tax rates so that provinces could increase their tax rates by an equivalent amount, with no impact on the taxpayer. The value of the tax transfer component continued to increase at a relatively rapid 5.1-per-cent rate in 1996-97, reflecting the growth in the applicable tax bases. To the end of March 1997, the cash transfer, which is the difference between the total entitlement and an increasing value in the tax point transfer, consequently declined by 16.7 per cent. This decline overstates the decline expected for the fiscal year as a whole. In 1995-96, payments under the

Budgetary expenditures 1995-96 and 1996-97

April to March
Year-over-year growth

per-cent change

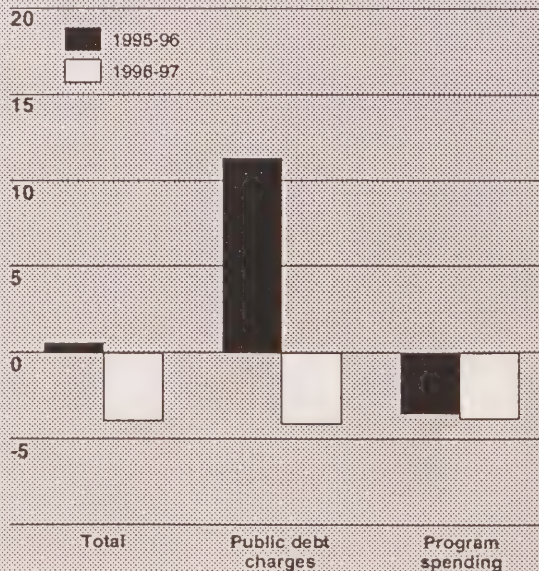


Table 3

Budgetary expenditures

	March		April to March		Per cent change
	1996	1997	1995-96	1996-97	
	(millions of dollars)				(%)
Transfer payments to:					
Persons					
Elderly benefits	1,781	1,841	21,023	21,594	2.7
Employment insurance benefits	1,403	1,176	13,441	12,352	-8.1
Total	3,184	3,017	34,464	33,946	-1.5
Other levels of government					
Canada Health and Social Transfer	1,169	1,051	18,713	14,911	-20.3
Fiscal transfers	1,000	661	10,164	9,533	-6.2
Alternative payments for standing programs	-163	-167	-1,956	-2,012	2.8
Total	2,006	1,545	26,921	22,432	-16.7
Subsidies and other transfers					
Agricultural subsidies	125	90	670	904	34.9
Indian and Inuit programs	188	162	3,314	3,369	1.7
Regional development	92	126	611	552	-9.7
Science and technology	173	143	1,286	1,106	-14.0
International assistance	275	316	1,781	1,755	-1.5
Veterans' pensions/allowances	115	113	1,385	1,363	-1.6
Other	502	2,074	5,200	6,615	27.2
Total	1,469	3,025	14,246	15,673	10.0
Total transfers	6,659	7,587	75,632	72,053	-4.7
Payments to Crown corporations					
Canadian Broadcasting Corporation	73	100	1,171	997	-14.8
Canada Mortgage and Housing Corporation	193	197	1,981	1,898	-4.2
Other	167	108	1,448	1,220	-15.8
Total	433	405	4,600	4,115	-10.5
Operating and capital expenditures					
Defence	871	687	9,362	8,712	-6.9
All other departmental expenditures	1,733	1,755	16,645	17,318	4.0
Total	2,604	2,442	26,007	26,030	0.1
Total program expenditures	9,696	10,434	106,239	102,198	-3.8
Public debt charges	3,991	3,798	46,654	44,750	-4.1
Total budgetary expenditures	13,687	14,232	152,893	146,948	-3.9

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Non-budgetary transactions in the April 1996 to March 1997 period resulted in a net source of funds amounting to \$10.8 billion, compared to a net source of \$7.5 billion recorded in the corresponding period of 1995-96. The results to date were affected by extraordinary receipts. Final installment payments relating to the 1995 sale of Canadian National Railways and shares in Petro Canada resulted in the receipt of about \$2 billion in 1996-97. Under the government's accounting principles, the deficit impact of these sales was recorded in 1995-96, when the sales occurred. These final installment payments, therefore, had no impact on the 1996-97 deficit but provided additional cash in 1996-97.

With a deficit of \$9.6 billion and a net source of funds from non-budgetary transactions of \$10.8 billion, there was a net financial source (surplus), excluding foreign exchange transactions, of \$1.1 billion, compared to a net requirement of \$16.9 billion in 1995-96. This is the first net financial source (surplus) since 1969-70. However, as noted above, there were a number of special one-time factors, which impacted favourably on the deficit and non-budgetary transactions during 1996-97.

The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. It fulfills this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward

pressure on the currency. In 1996-97, foreign exchange transactions resulted in a net requirement of \$7.5 billion, compared to a net requirement of \$4.7 billion in 1995-96.

As a result, total financial requirements, including foreign exchange transactions, were \$6.4 billion in 1996-97, compared to \$21.7 billion in 1995-96.

To finance these requirements, the government borrows from the private credit markets and/or draws down its cash reserves. In 1996-97, the government's net new borrowings from the private credit markets (unmatured debt transactions) amounted to \$7.2 billion, compared to \$28.5 billion in 1995-96. Cash balances were increased slightly (\$0.8 billion), to reach \$9.3 billion by March 31, 1997.

The Debt Servicing and Reduction Account

In June 1991, legislation to establish the Debt Servicing and Reduction Account received Royal Assent. As a result, effective April 1, 1991, all goods and services tax revenue net of the applicable input tax credits, rebates, and the low-income credit, along with the net proceeds from the sale of Crown corporations and gifts to the Crown identified for debt reduction must, by law, go directly to the Debt Servicing and Reduction Account. The funds in this Account can only be used to pay the cost of servicing the public debt and ultimately to reduce the debt. The Account is audited on an annual basis by the Auditor General of Canada.

Table 7

Debt Servicing and Reduction Account (DSRA)

	1991-92	1992-93	1993-94	1994-95	1995-96
	(millions of dollars)				
Gross GST collected	29,564	30,516	32,652	36,715	38,048
Less:					
Refunds and rebates	11,330	12,138	14,271	17,112	18,874
Quarterly low-income tax credit	2,262	2,503	2,685	2,816	2,799
Net GST	15,168	14,868	15,696	16,787	16,374
GST penalties and interest received	19	71	90	129	135
Gains from wind-up of interest in Crown corporations/disposal of shares in Crown corporations	2	110			325
Gifts to the Crown	0.4	0.1	0.2	0.5	0.3
Proceeds to the DSRA	15,190	15,050	15,786	16,916	16,835

Figures to 1995-96 are from the *Public Accounts of Canada*.

Note: Numbers in this newsletter may not add due to rounding.

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May 1997



The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for April 1997

Deficit declines by \$0.7 billion in April 1997

The deficit in April 1997 was estimated at \$3.4 billion, down \$0.7 billion from April 1996. Most of this year-over-year decline in the deficit was attributable to higher budgetary revenues, up \$0.7 billion. Program spending was marginally lower while public debt charges were up slightly.

The increase in budgetary revenues was primarily due to higher employment insurance premiums (up \$0.4 billion), personal income tax collections (up \$0.3 billion) and corporate income tax collections (up \$0.3 billion). In contrast, excise taxes and duties and non-tax revenues were down on a year-over-year basis.

- The increase in employment insurance premiums was largely attributable to an acceleration in the payment of the premium liability due to changes to the base on which premiums are levied, from weekly maximum insurable earnings to annual maximum insurable earnings, effective January 1, 1997. This change does not affect the amount paid by employees and employers for the calendar year as a whole. However, those earning above the annual maximum insurable earnings will pay more of their premium liability earlier in the calendar year and less at the end.
- Most of the increase in personal income tax collections was due to higher taxes paid on filing and lower refunds, relating to the 1996 taxation year. Higher corporate profits account for the increase in corporate income tax collections.
- The decline in excise taxes and duties was largely due to lower GST collections, offset in part by higher other excise taxes and duties. Net GST collections were a negative \$249 million, down \$233 million from April 1996. Net GST collections are the lowest in April of each year. This is largely due to the fact that most GST collections are due at the end of each month, but are not normally deposited in the government's bank accounts until the first few days of the following month. During the course of the year, these monies are largely reported in the month in which they are received. However, monies remitted with respect to March, but not received until April, are credited to the previous fiscal year as part of the end-of-year accounting adjustments, thereby dampening overall collections in April. In addition, the low-income GST credit is paid in April, thereby further dampening net collections in that month.

Program spending was down slightly in April 1997 compared to April 1996.

- Declines were recorded in major transfers to persons, major transfers to other levels of government, payments to Crown corporations and to defence. These reductions primarily reflect actions taken in previous budgets to control spending and reduce the deficit.
- Dampening the impact of these declines were increases in other transfers and in all other departmental spending – primarily the operating costs of governments. These increases largely reflect timing factors, which should be reversed in coming months. For example, the increase in all other departmental spending was attributable to there being three government employee pay periods in April 1997, whereas there were only two in April 1996. This accounts for more than all of the increase in this component of program spending. In May 1996, there were three pay periods, whereas there were only two in May 1997.

Public debt charges were up slightly, as the impact of lower interest rates was offset by a slight increase in the overall stock of debt.



The Fiscal Monitor

Table 1

Summary statement of transactions

	April	
	1996	1997
	(millions of dollars)	
Budgetary transactions		
Revenues	7,653	8,337
Program spending	-7,971	-7,952
Operating balance	-318	385
Public debt charges	-3,741	-3,792
Deficit/surplus	-4,059	-3,407
Non-budgetary transactions	-301	412
Financial requirements/source (excluding foreign exchange transactions)	-4,360	-2,995
Foreign exchange transactions	-1,906	3,589
Total financial requirements	-6,266	594
Unmatured debt transactions	-349	-5,092

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2

Budgetary revenues

	April		Per cent change
	1996	1997	
	(millions of dollars)		(%)
Income taxes			
Personal income tax	4,528	4,806	6.1
Corporate income tax	550	811	47.5
Other	204	272	33.1
Total income tax	5,282	5,889	11.5
Employment insurance contributions	1,488	1,844	23.9
Excise taxes and duties			
Goods and services tax	-16	-249	N.A.
Customs import duties	94	22	N.A.
Other excise taxes/duties	298	463	55.9
Total excise taxes and duties	376	237	-36.7
Total tax revenues	7,146	7,970	11.6
Non-tax revenues	507	367	-27.8
Total budgetary revenues	7,653	8,337	8.9

Table 3
Budgetary expenditures

	April		Per cent change
	1996	1997	
	(millions of dollars)		
Transfer payments to:			
Persons			
Elderly benefits	1,705	1,790	5.0
Employment insurance benefits	1,283	1,134	-11.6
Total	2,988	2,924	-2.1
Other levels of government			
Canada Health and Social Transfer	1,254	1,022	-18.5
Fiscal transfers	975	988	1.4
Alternative Payments for Standing Programs	-167	-178	6.6
Total	2,062	1,832	-11.1
Other			
Agriculture		4	N.A.
Foreign Affairs	59	49	-16.9
Human Resources Development	91	52	-42.9
Indian and northern development	707	716	1.3
Industry & regional development	64	83	29.7
Veterans Affairs	109	112	2.9
Other	194	301	55.4
Total	1,224	1,317	7.6
Total transfers	6,274	6,073	-3.2
Payments to Crown corporations			
Canadian Broadcasting Corporation	132	112	-15.2
Canada Mortgage and Housing Corporation	129	139	8.2
Other	138	137	-1.2
Total	399	388	-2.8
Operating and capital expenditures			
Defence	392	355	-9.4
All other departmental expenditures	906	1,136	25.4
Total	1,298	1,491	14.9
Total program expenditures	7,971	7,952	-0.2
Public debt charges	3,741	3,792	1.4
Total budgetary expenditures	11,712	11,744	0.3

Table 4
The deficit and financial requirements

	April	
	1996	1997
	(millions of dollars)	
Deficit/surplus	-4,059	-3,407
Loans, investments and advances		
Crown corporations	58	-253
Other	-37	-43
Total	21	-296
Specified purpose accounts		
Canada Pension Plan Account	532	513
Superannuation accounts	-163	-345
Other	-72	-41
Total	297	127
Other transactions	-619	581
Total non-budgetary transactions	-301	412
Financial requirements (excluding foreign exchange transactions)	-4,360	-2,995
Foreign exchange transactions	-1,906	3,589
Total financial requirements	-6,266	594

Table 5

Financial requirements and unmatured debt transactions

	April	
	1996	1997
	(millions of dollars)	
Total financial requirements/source	-6,266	594
Unmatured debt transactions: payable in Canadian dollars		
Marketable bonds	2,800	—
Canada Savings Bonds	-270	-289
Treasury bills	3,600	-3,700
Other	-1	-1
Less government's holdings	150	143
Total Canadian currency	-921	-3,847
Unmatured debt transactions: payable in foreign currencies		
Marketable bonds	—	—
Notes and loans	—	—
Canada bills	-39	-940
Canada notes	611	-305
Total foreign currencies	572	-1,245
Total unmatured debt transactions	-349	-5,092
Change in cash balance	-6,615	-4,497

Table 6

Cash, unmatured debt and debt balances: at April 30

	1996	1997
	(millions of dollars)	
Cash balances at end of period		
In Canadian dollars	1,896	4,836
In foreign currencies	20	5
Total cash balance	1,916	4,841
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	255,565	282,563
Treasury bills	162,500	131,700
Canada Savings Bonds	31,158	33,204
Other	3,477	3,467
Subtotal	452,700	450,934
Less:		
Government's holdings of unmatured debt	802	815
Total	451,898	450,119
Payable in foreign currencies		
Marketable bonds	9,501	12,460
Notes and loans	0	0
Canada bills	6,947	7,496
Canada notes	611	1,816
Total	17,059	21,772
Total unmatured debt	468,957	471,891

Note: Numbers in this newsletter may not add due to rounding.

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July 1997



The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for May 1997

Surplus recorded in May 1997

A surplus of \$1.4 billion was recorded in May 1997, compared to a deficit of \$0.6 billion in May 1996. As a result, there was a net improvement in the federal government's budgetary position of \$2.0 billion on a year-over-year basis. Budgetary revenues were up \$0.8 billion (6.8 per cent), while program spending declined \$0.8 billion (10.0 per cent). Public debt charges were down \$0.4 billion (9.4 per cent).

The increase in budgetary revenues was primarily due to higher personal income tax collections (\$0.7 billion), primarily reflecting higher taxes paid on filing relating to the 1996 taxation year, and increased employment insurance premiums (up \$0.3 billion), attributable to an acceleration of monthly payments. In contrast, excise taxes and duties were lower (down \$0.2 billion) on a year-over-year basis.

The decline in program spending reflected the impact of previous budget actions as well as timing factors. In May 1997, there were two government employee pay periods, whereas in May 1996, there were three. This accounted for about \$0.4 billion of the year-over-year decline in program spending.

Deficit for April and May 1997 down \$2.6 billion

Over the first two months of the 1997-98 fiscal year, the deficit was estimated at \$2.0 billion, down \$2.6 billion from the same period last year. This decline in the deficit was attributable to the increasing strength in the economy, the impact of previous budget measures and timing considerations. Budgetary revenues were up \$1.4 billion (7.7 per cent), program spending declined \$0.8 billion (5.2 per cent), while public debt charges were \$0.3 billion lower (4.1 per cent).

Within budgetary revenues, personal income tax collections were up \$0.9 billion, employment insurance premiums increased \$0.7 billion, while corporate income tax collections increased \$0.3 billion. In contrast, excise taxes and duties were down by \$0.4 billion, while non-tax revenues declined by \$0.1 billion.

- The increase in personal income tax collections reflected both higher taxes paid on filing, relating to the 1996 taxation year, and an increase in deductions from employment income, due to increases in the number of people employed.
- The increase in employment insurance premiums was attributable to timing considerations, which will be reversed over the latter half of the calendar year, thereby having no effect on the deficit outcome for 1997-98. In January 1997, there was a change to the base on which premiums are levied, from weekly maximum insurable earnings to annual maximum insurable earnings. This change results in an acceleration of premium payments from the latter half of the calendar year to the first half. This change does not affect the amount paid by employees and employers for the calendar year as a whole. However, those earnings above the annual maximum insurable earnings will pay more of their premium liability earlier in the calendar year and less at the end.
- The increase in corporate income tax collections was attributable to an increase in corporate profits, in line with the strengthening economy.
- The decline in excise taxes and duties was largely due to lower GST collections. Net GST collections were down \$0.3 billion, compared to the same period last year. This decline was attributable to timing considerations, related to end-of-year accounting adjustments and the payment of refunds. Gross collections were up, in line with the growth in domestic demand. Custom import duties were also lower, reflecting the impact of tariff reductions, while other excise taxes and duties were up slightly.

With the exception of other transfer payments, all other major components of program spending were lower in the April and May 1997 period than in the same period last year.

- Major transfers to persons declined \$0.2 billion, solely due to lower employment insurance benefits, as elderly benefits were up. The decline in



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employment insurance benefits was primarily due to lower average benefits and a decline in beneficiaries, primarily reflecting the impact of reform measures.

- Major transfers to other levels of government were down \$0.5 billion. This decline was attributable to the reduction in entitlements under the Canada Health and Social Transfer (CHST), as announced in the February 1995 budget. In order to give provinces time to plan for these reductions, total entitlements – the most appropriate measure of federal support – were largely unaffected in 1995-96. Total entitlements were set at \$29.6 billion in 1995-96, up 1 per cent from 1994-95, \$26.9 billion in 1996-97 and \$25.1 billion in 1997-98. They are being held at this level till 1999-2000. For 2000-01 to 2002-03, these entitlements will grow at an increasing pace. These entitlements are paid to the provinces in the form of tax point transfers and cash. The tax point transfer component represents the value of “tax room” which the federal government made available to provinces, which allowed the provinces to increase their tax rates by an equivalent amount, with no impact on the taxpayer. The value of the tax point transfer increases in line with the growth in the applicable tax bases. The cash transfer, therefore, is the difference between the entitlement and an increasing value in the tax point transfer. Being a residual, the cash transfer, which affects program spending, is determined not only by the change in entitlements, but also by the growth in the value of the tax point transfer. As a result, even with no change in entitlements, cash transfers would decline in line with the growth in the value of tax point transfers. Conversely, if the value of the tax point transfer declined, assuming no change in entitlements, the cash component would rise correspondingly. For 1997-98, cash transfers are estimated at \$12.5 billion and were expected to fall to \$11.8 billion in 1998-99. However, the government has indicated that it would establish a floor whereby over the five-year period – 1998-99 to 2002-03 – cash transfers would never fall below \$12.5 billion.
- Excluding major transfers to persons and other levels of government, all other program spending declined by 1.2 per cent. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. In contrast to the reduction to entitlements to other levels of government, which took effect in 1996-97, this component of spending declined by 10 per cent in 1995-96, reflecting the major reductions announced

in the 1994 and 1995 budgets. Expenditures on Crown corporations, defence, and all other departmental expenditures were lower over the April and May 1997 period, while other major transfers were up \$0.2 billion. This increase primarily reflected the timing of payments.

Public debt charges were down \$0.3 billion, or 4.1 per cent. This decline was attributed both to a decline in unmatured, or market, debt (down \$0.7 billion) and lower average effective interest rates. This is the first time since the mid 1970s that the stock of unmatured debt has declined on a year-over-year basis. Net public debt, which is the cumulation of deficits and surpluses since Confederation and includes not only unmatured debt but also non-market debt (primarily public sector employee pension liabilities) did increase as there was a deficit over the April and May 1997 period.

Financial source (surplus) of \$1.9 billion for April and May 1997

Non-budgetary transactions provided the government with a net source of funds, amounting to \$2.1 billion, compared to a source of \$0.3 billion in the same period last year. Most of this increase was attributable to a reopening of some bonds, which resulted in a one-time cash gain but has only minor impact on the monthly deficit as such gains are amortized over the life of the bond.

Foreign exchange transactions resulted in a net source of \$1.9 billion, compared to a net requirement of \$1.0 billion in the same period last year.

As a result, there was a financial source, including foreign exchange transactions, of \$1.9 billion in the April and May 1997 period. In the same period last year, there was a net requirement of \$1.3 billion.

Caution should be exercised in extrapolating the monthly results to gain an assessment of the possible outcome for the year as a whole. For example, the current increase in employment insurance premiums will be reversed by the end of the calendar year, thereby having no impact on the deficit outcome for the year as a whole. The increase in personal income tax collections due to higher taxes paid on filing, with respect of the 1996 taxation year, is a one-time development and is not repeated in subsequent months. In the fall, the Minister of Finance will present his annual update on economic and fiscal developments. At that time, there will be assessment of current developments on the government's deficit targets.

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Table 1

Summary statement of transactions

	May		April – May	
	1996	1997	1996-97	1997-98
	(millions of dollars)			
Budgetary transactions				
Revenues	11,424	12,202	19,076	20,539
Program spending	-8,147	-7,332	-16,118	-15,284
Operating surplus	3,277	4,870	2,958	5,255
Public debt charges	-3,859	-3,498	-7,600	-7,290
Deficit/surplus	-582	1,372	-4,642	-2,035
Non-budgetary transactions	626	1,649	326	2,063
Financial requirements/source (excluding foreign exchange transactions)	44	3,021	-4,316	28
Foreign exchange transactions	905	-1,698	-1,001	1,891
Total financial requirements/source	949	1,323	-5,317	1,919
Unmatured debt transactions	91	-3,224	-259	-8,317

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2

Budgetary revenues

	May		April – May		Per cent change
	1996	1997	1996-97	1997-98	
	(millions of dollars)				(%)
Income taxes					
Personal income tax	5,612	6,273	10,140	11,079	9.3
Corporate income tax	1,097	1,126	1,647	1,938	17.7
Other	172	138	375	410	9.3
Total income tax	6,881	7,537	12,162	13,427	10.4
Employment insurance premiums	1,521	1,857	3,010	3,701	23.0
Excise taxes and duties					
Goods and services tax	1,664	1,561	1,648	1,312	-20.4
Customs import duties	170	193	264	215	-18.6
Other excise taxes/duties	769	616	1,065	1,079	1.3
Total excise taxes and duties	2,603	2,370	2,977	2,606	-12.5
Total tax revenues	11,005	11,764	18,149	19,734	8.7
Non-tax revenues	419	438	927	805	-13.2
Total budgetary revenues	11,424	12,202	19,076	20,539	7.7

Table 6

Cash, unmatured debt and debt balances: at May 31

	1996	1997
	(millions of dollars)	
Cash balances at end of period		
In Canadian dollars	2,981	2,965
In foreign currencies	6	3
Total cash balance	2,987	2,968
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	256,065	285,387
Treasury bills	162,200	125,800
Canada Savings Bonds	30,872	32,906
Other	3,476	3,465
Subtotal	452,613	447,558
Less:		
Government's holdings of unmatured debt	672	702
Total	451,941	446,856
Payable in foreign currencies		
Marketable bonds	9,501	12,460
Notes and loans	0	0
Canada bills	6,996	7,535
Canada notes	922	1,816
Total	17,419	21,811
Total unmatured debt	469,360	468,667

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Table 3
Budgetary expenditures

	May		April – May		Per cent change
	1996	1997	1996-97	1997-98	
	(millions of dollars)				(%)
Transfer payments to:					
Persons					
Elderly benefits	1,800	1,828	3,505	3,617	3.2
Employment insurance benefits	1,129	933	2,412	2,067	-14.3
Total	2,929	2,761	5,917	5,684	-3.9
Other levels of government					
Canada Health and Social Transfer	1,254	1,013	2,508	2,035	-18.9
Fiscal transfers	720	677	1,694	1,664	-1.8
Alternative Payments for Standing Programs	-169	-178	-336	-355	5.7
Total	1,805	1,512	3,866	3,344	-13.5
Other					
Agriculture	51	12	51	15	-70.6
Foreign Affairs	79	124	137	174	27.0
Human Resources Development	145	140	236	192	-18.6
Indian and Northern Development	298	259	1,005	975	-3.0
Industry & Regional Development	53	93	118	176	49.2
Veterans Affairs	116	116	225	228	1.4
Other	165	241	359	542	50.8
Total	907	985	2,131	2,302	8.0
Total transfers	5,641	5,258	11,914	11,330	-4.9
Payments to Crown corporations					
Canadian Broadcasting Corporation	101	71	233	183	-21.5
Canada Mortgage and Housing Corporation	145	109	274	249	-9.2
Other	62	70	200	207	3.6
Total	308	250	707	639	-9.6
Operating and capital expenditures					
Defence	638	615	1,030	970	-5.8
All other departmental expenditures	1,560	1,209	2,467	2,345	-4.9
Total	2,198	1,824	3,497	3,315	-5.2
Total program expenditures	8,147	7,332	16,118	15,284	-5.2
Public debt charges	3,859	3,498	7,600	7,290	-4.1
Total budgetary expenditures	12,006	10,830	23,718	22,574	-4.8

Table 4

The deficit and financial requirements/source

	May		April – May	
	1996	1997	1996-97	1997-98
	(millions of dollars)			
Deficit/surplus	-582	1,372	-4,642	-2,035
Loans, investments and advances				
Crown corporations	-26	210	32	-43
Other	-73	-26	-110	-30
Total	-98	184	-78	-73
Specified purpose accounts				
Canada Pension Plan Account	754	691	1,286	1,204
Superannuation accounts	-209	-239	-371	-584
Other	17	-31	-53	-72
Total	562	421	862	548
Other transactions	162	1,044	-458	1,588
Total non-budgetary transactions	626	1,649	326	2,063
Financial requirements/source (excluding foreign exchange transactions)	44	3,021	-4,316	28
Foreign exchange transactions	905	-1,698	-1,001	1,891
Total financial requirements/source	949	1,323	-5,317	1,919

Table 5

Financial requirements/source and unmatured debt transactions

	May		April – May	
	1996	1997	1996-97	1997-98
	(millions of dollars)			
Total financial requirements/source	949	1,323	-5,317	1,919
Unmatured debt transactions: payable in Canadian dollars				
Marketable bonds	500	2,824	3,300	2,824
Canada Savings Bonds	-286	-298	-556	-587
Treasury bills	-300	-5,900	-3,900	-9,600
Other	-1	-2	-2	-3
Less government's holdings	129	113	278	256
Total Canadian currency	42	-3,263	-880	-7,110
Unmatured debt transactions: payable in foreign currencies				
Marketable bonds	—	—	—	—
Notes and loans	—	—	—	—
Canada bills	49	39	10	-902
Canada notes	—	—	611	-305
Total foreign currencies	49	39	621	-1,207
Total unmatured debt transactions	91	-3,224	-259	-8,317
Change in cash balance	1,040	-1,901	-5,576	-6,398

The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for June 1997

Budgetary surplus of \$1.5 billion recorded in June 1997

A surplus of \$1.5 billion was recorded in June 1997, marking the second consecutive month in which a budgetary surplus was recorded – the first time that this has occurred since the late 1970s. As a result, there was a net improvement in the federal government's budgetary position of \$2.2 billion on a year-over-year basis. Budgetary revenues were up \$1.8 billion (16.3 per cent), while program spending declined \$0.1 billion (0.9 per cent). Public debt charges were down \$0.3 billion (6.6 per cent).

The increase in budgetary revenues was primarily due to higher personal income tax and goods and services tax (GST) collections, each up \$0.5 billion, and increased corporate income tax collections and employment insurance premiums, each up \$0.3 billion. The increase in personal income tax collections reflected strong growth in employment income, reflecting the advances in employment. The strong increase in GST collections was primarily attributable to timing considerations, as collections in the first two months were unusually low. The higher corporate income tax collections reflected the continued strength in corporate profits, while the higher employment insurance premiums were largely attributable to the acceleration of monthly payments.

The decline in program spending reflected the impact of previous budget actions. Lower spending was reported in major transfers to other levels of government, payments to Crown corporations and defence. The impact of these declines was partially offset by higher elderly benefit payments, increased subsidy transfers, and the costs incurred by Elections Canada related to the June 1997 federal election. The decrease in public debt charges was attributable to the effect of lower interest rates.

Deficit for April to June 1997 down \$4.8 billion

Over the first three months of the 1997-98 fiscal year, the deficit was reported at \$0.5 billion, down \$4.8 billion from the same period last year. This year-over-year decline in the deficit was largely attributable to the increasing strength in the economy and the impact of previous budget measures. Budgetary revenues were up \$3.3 billion (10.9 per cent), program spending declined \$0.9 billion (3.8 per cent), while public debt charges were \$0.6 billion lower (4.9 per cent).

Financial requirements significantly lower

Financial requirements, excluding foreign exchange transactions, amounted to \$483 million in the first three months of 1997-98, compared to a net requirement of \$6.7 billion over the same period last year. Foreign exchange transactions provided the government with a net source of funds amounting to \$1.0 billion over the April to June 1997 period, compared to a net source of \$0.4 billion over the first three months in 1996-97. As a result, there was a total financial source (surplus) of \$0.6 billion to date, compared to a net requirement of \$6.2 billion over the same period last year. There was a net repayment of unmatured debt of \$6.0 billion in the first three months of 1997-98.

Caution should be exercised in extrapolating these monthly results to gain an assessment of the possible outcome for the year as a whole. For example, all of the current increase in employment insurance premiums will be reversed by the end of the calendar year, thereby having no impact on the deficit outcome for the year as a whole.



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Table 1

Summary statement of transactions

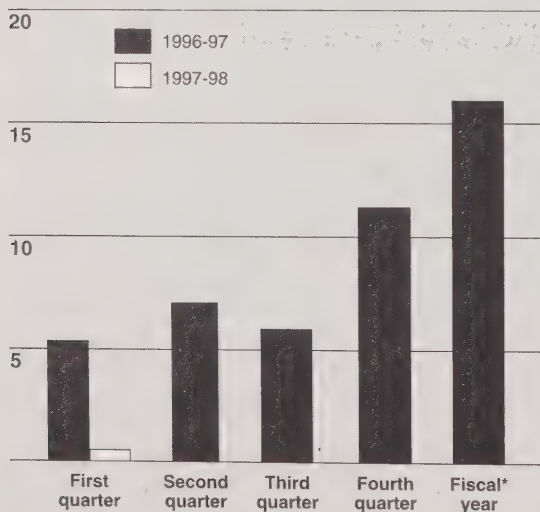
	June		April to June	
	1996	1997	1996-97	1997-98
	(millions of dollars)			
Budgetary transactions				
Revenues	11,200	13,029	30,276	33,568
Program spending	-8,009	-7,934	-24,127	-23,219
Operating surplus	3,191	5,095	6,149	10,349
Public debt charges	-3,844	-3,592	-11,444	-10,882
Deficit/surplus	-653	1,503	-5,295	-533
Non-budgetary transactions	-1,692	-2,013	-1,366	50
Financial requirements/source (excluding foreign exchange transactions)	-2,345	-510	-6,661	-483
Foreign exchange transactions	1,448	-844	446	1,048
Total financial requirements/source	-897	-1,354	-6,215	565
Unmatured debt transactions	300	2,360	41	-5,957

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

The federal deficit 1996-97 and 1997-98

Year to date

billions of dollars



*Estimate

The increase in personal income tax collections due to higher taxes paid on filing, with respect to the 1996 taxation year, is a one-time development and will not be repeated in subsequent months. In the fall, the Minister of Finance will present the government's annual update on economic and fiscal developments. At that time, there will be an assessment of current developments on the government's deficit targets.

Budgetary revenues up

Over the April to June 1997 period, budgetary revenues were up \$3.3 billion, or 10.9 per cent, on a year-over-year basis. Of this increase \$1 billion was attributable to the timing in the receipt of employment insurance premiums, which will be reversed over the latter half of the calendar year, with the remainder attributable to strength in the economy.

- Personal income tax collections were up \$1.4 billion, or 8.9 per cent. This increase was due to higher taxes paid on filing, relating to stronger income growth in the 1996 taxation year and to the increases in the number of people employed this year.
- Corporate income tax collections were up \$0.6 billion, or 22.2 per cent, attributable to an increase in corporate profits, in line with the strengthening economy.

Table 2

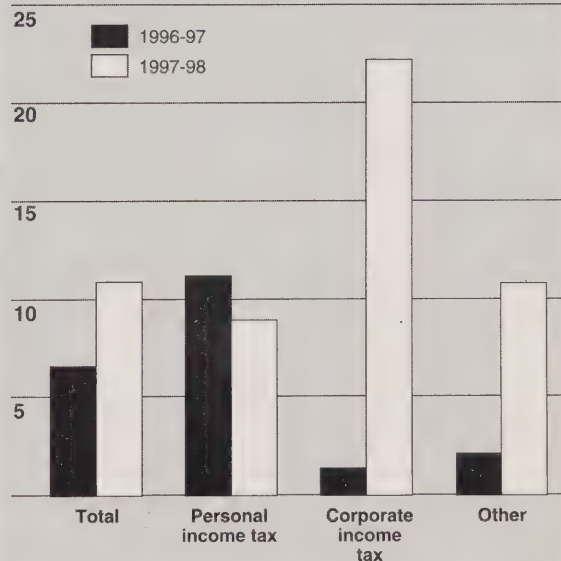
Budgetary revenues

	June		April to June		Per cent change
	1996	1997	1996-97	1997-98	
	(millions of dollars)				(%)
Income taxes					
Personal income tax	5,759	6,239	15,899	17,318	8.9
Corporate income tax	1,118	1,422	2,765	3,380	22.2
Other	137	146	513	556	8.4
Total income tax	7,014	7,827	19,177	21,254	10.8
Employment insurance premiums	1,566	1,862	4,575	5,564	21.6
Excise taxes and duties					
Goods and services tax	1,208	1,717	2,856	3,029	6.1
Customs import duties	216	118	480	333	-30.7
Other excise taxes/duties	652	786	1,718	1,864	8.5
Total excise taxes and duties	2,076	2,621	5,054	5,226	3.4
Total tax revenues	10,656	12,310	28,806	32,044	11.2
Non-tax revenues	545	719	1,470	1,524	3.7
Total budgetary revenues	11,200	13,029	30,276	33,568	10.9

- Employment insurance premiums were up \$1.0 billion, or 21.6 per cent. This increase was entirely attributable to timing considerations, which will be reversed over the latter half of the calendar year, thereby having no effect on the deficit outcome for 1997-98. In January 1997, there was a change to the base on which premiums are levied, from weekly maximum insurable earnings to annual maximum insurable earnings. This change results in an acceleration of premium payments from the latter half of the calendar year to the first half. This change does not affect the amount paid by employees and employers for the calendar year as a whole. However, those earning above the annual maximum insurable earnings will pay more of their premium liability earlier in the calendar year and less at the end.
- Net GST collections were up \$0.2 billion, or 6.1 per cent. In the first two months of the current fiscal year, net GST collections were down on a year-over-year basis, reflecting the impact of timing considerations, given remittance procedures. This was largely reversed in June 1997, with the result that the year-to-date growth is more in line with the strength in consumer demand.
- Customs import duties were down \$0.1 billion, or 30.7 per cent, in large part reflecting the impact of tariff reductions. Other excise taxes and duties were up \$0.1 billion, or 8.5 per cent, reflecting higher receipts from energy taxes and from the air transport tax.

Budgetary revenues 1996-97 and 1997-98

April to June
Year-over-year growth
per cent change



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- Non-tax revenues, consisting of return on investments and other non-tax revenues, such as fees and proceeds from sales, among others, were up 3.7 per cent, primarily reflecting higher other non-tax revenues, as return on investments was lower due to the effect of lower interest rates.

Program spending lower

Program spending declined by \$0.9 billion in the first three months of 1997-98, compared to the same period last year. With the exception of other transfer payments, all other major components of program spending were lower in the April to June 1997 period than in the same period last year.

The profile of program spending by major component, in the first three months of 1997-98, primarily reflects the timing and the nature of the restraint measures introduced in the 1994, 1995 and 1996 budgets. Restraint measures introduced in the February 1994 budget and the impact of the Program Review I measures introduced in the February 1995 budget primarily focused on program spending excluding the major transfers to persons and other levels of government (operating and capital costs, defence, payments to Crown corporations and subsidies). As a result, this component of program spending declined by 10 per cent in 1995-96. In contrast, changes to the major transfers to other levels of government were largely delayed until 1996-97, thereby providing the provinces and territories time to plan for the restructuring in these transfers. Furthermore, the reductions in cash transfers to other levels of government are largely being phased in over two years – 1996-97 and 1997-98. As a result, whereas reductions in all other program spending accounted for most of the reduction in total program spending in 1995-96, the reductions in cash transfers to other levels of government is the major factor contributing to the decline in program spending in 1996-97 and 1997-98. However, cash transfers to other levels of government are expected to remain at \$12.5 billion post-1997-98, whereas all other program spending is expected to continue to decline as the impact of Program Review II restraint measures takes effect.

- On a year-over-year basis, major transfers to persons (elderly benefits and employment insurance benefits) declined \$0.2 billion over the April to June 1997 period, solely due to lower employment insurance benefits, as elderly benefits were up. The decline in employment insurance benefits was primarily due to lower average benefits and a decline in beneficiaries, primarily reflecting the impact of reform measures. The increase in elderly benefits was due to higher average benefits, which are indexed to inflation, and an increase in the eligible population
- In the first quarter of fiscal year 1997-98, major transfers to other levels of government were down \$0.8 billion. This decline was attributable to the

reduction in entitlements under the Canada Health and Social Transfer (CHST) and the rising value of the tax point transfers reflecting increases in the applicable tax bases. As noted above, in order to give provinces time to plan for these reductions, total entitlements – the most appropriate measure of federal support – were largely unaffected in 1995-96. Total entitlements were set at \$29.6 billion in 1995-96, up 1 per cent from 1994-95, \$26.9 billion in 1996-97 and \$25.1 billion in 1997-98. They are being held at this level until 1999-2000. For 2000-01 to 2002-03, these entitlements will grow at an increasing pace. These entitlements are paid to the provinces in the form of tax point transfers and cash. The tax point transfer component represents the value of “tax room” which the federal government made available to provinces, allowing the provinces to increase their tax rates by an equivalent amount, with no net impact on the taxpayer. The value of the tax point transfer increases in line with the growth in the applicable tax bases. The cash transfer, therefore, is the difference between the entitlement and an increasing value in the tax point transfer. Being a residual, the cash transfer, which affects program spending, is determined not only by the change in entitlements, but also by the growth in the value of the tax point transfer. As a result, even with no change in entitlements, cash transfers would decline in line with the growth in the value of tax point transfers. Conversely, if the value of the tax point transfer declined, assuming no change in

Budgetary expenditures 1996-97 and 1997-98

April to June
Year-over-year growth

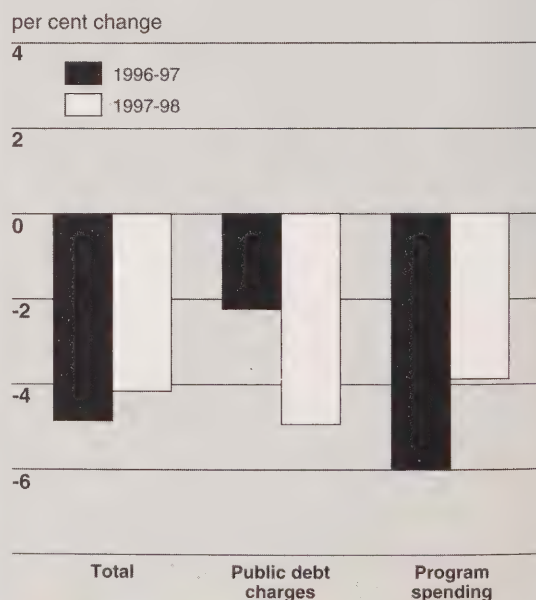


Table 3

Budgetary expenditures

	June		April to June		Per cent change
	1996	1997	1996-97	1997-98	
	(millions of dollars)				(%)
Transfer payments to:					
Persons					
Elderly benefits	1,791	1,853	5,296	5,470	3.3
Employment insurance benefits	853	846	3,265	2,914	-10.8
Total	2,644	2,699	8,561	8,384	-2.1
Other levels of government					
Canada Health and Social Transfer	1,254	1,022	3,762	3,057	-18.7
Fiscal transfers	811	787	2,506	2,452	-2.1
Alternative Payments for Standing Programs	-169	-178	-505	-533	5.5
Total	1,896	1,631	5,763	4,976	-13.7
Subsidies and other transfers					
Agriculture	15	60	66	75	13.6
Foreign Affairs	123	124	261	297	13.8
Human Resources Development	156	210	392	402	2.6
Indian and Northern Development	279	313	1,284	1,288	0.3
Industry and Regional Development	137	131	255	307	20.7
Veterans Affairs	111	114	335	342	1.8
Other	194	273	555	816	46.9
Total	1,015	1,225	3,148	3,526	12.0
Total transfers	5,556	5,555	17,472	16,886	-3.4
Payments to Crown corporations					
Canadian Broadcasting Corporation	65	66	298	249	-16.4
Canada Mortgage and Housing Corporation	177	114	451	364	-19.2
Other	103	86	303	292	-3.8
Total	345	267	1,052	905	-14.0
Operating and capital expenditures					
Defence	733	681	1,763	1,651	-6.4
All other departmental expenditures	1,375	1,431	3,840	3,777	-1.6
Total	2,108	2,112	5,603	5,428	-3.1
Total program expenditures	8,009	7,934	24,127	23,219	-3.8
Public debt charges	3,844	3,592	11,444	10,882	-4.9
Total budgetary expenditures	11,853	11,526	35,571	34,101	-4.1

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Table 4

The deficit and financial requirements/source

	June		April to June	
	1996	1997	1996-97	1997-98
	(millions of dollars)			
Deficit/surplus	-653	1,503	-5,295	-533
Loans, investments and advances				
Crown corporations	133	-31	164	-74
Other	-118	-31	-227	-61
Total	15	-62	-63	-135
Specified purpose accounts				
Canada Pension Plan Account	-139	-35	1,147	1,169
Superannuation accounts	2,476	2,651	2,105	2,067
Other	13	-138	-40	-210
Total	2,350	2,478	3,212	3,026
Other transactions	-4,057	-4,429	-4,515	-2,841
Total non-budgetary transactions	-1,692	-2,013	-1,366	50
Financial requirements/source (excluding foreign exchange transactions)	-2,345	-510	-6,661	-483
Foreign exchange transactions	1,448	-844	446	1,048
Total financial requirements/source	-897	-1,354	-6,215	565

Table 5

Financial requirements/source and unmatured debt transactions

	June		April to June	
	1996	1997	1996-97	1997-98
	(millions of dollars)			
Total financial requirements/source	-897	-1,354	-6,215	565
Unmatured debt transactions				
Payable in Canadian dollars				
Marketable bonds	3,828	6,614	7,128	9,438
Canada Savings Bonds	-245	-340	-801	-927
Treasury bills	-3,700	-5,400	-7,600	-15,000
Other	525	450	522	447
Less: Government's holding	144	106	423	362
Total Canadian currency	552	1,430	-328	-5,680
Unmatured debt transactions				
Payable in foreign currencies				
Marketable bonds	—	—	—	—
Notes and loans	—	—	—	—
Canada bills	-252	625	-242	-277
Canada notes	—	305	611	—
Total foreign currencies	-252	930	369	-277
Total unmatured debt transactions	300	2,360	41	-5,957
Change in cash balance	-597	1,006	-6,174	-5,392

Table 6

Cash, unmatured debt and debt balances: at June 30

	1996	1997
	(millions of dollars)	
Cash balances at end of period		
In Canadian dollars	2,358	3,969
In foreign currencies	23	5
Total cash balance	2,381	3,974
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	259,893	292,001
Treasury bills	158,500	120,400
Canada Savings Bonds	30,627	32,566
Other	4,000	3,915
Subtotal	453,020	448,882
Less: Government's holdings of unmatured debt	527	596
Total	452,493	448,286
Payable in foreign currencies		
Marketable bonds	9,501	12,460
Notes and loans	0	0
Canada bills	6,744	8,159
Canada notes	921	2,121
Total	17,166	22,740
Total unmatured debt	469,659	471,026

entitlements, the cash component would rise correspondingly. For 1997-98, cash transfers are estimated at \$12.5 billion and were expected to fall to \$11.8 billion in 1998-99. However, the government has proposed that it will ensure that over the five-year period – 1998-99 to 2002-03 – cash transfers will never fall below \$12.5 billion.

- Excluding major transfers to persons and other levels of government, all other program spending was virtually unchanged on a year-over-year basis. Declines in payments to Crown corporations, defence and all other departmental spending were offset by increases in subsidies and other transfers. The increase in the latter component primarily reflected the timing of payments, as total spending on subsidies and other transfers is expected to be lower in 1997-98 than in 1996-97 for the fiscal year as a whole, due to the restraint measures introduced in previous budgets. The year-over-year decline in the other components was attributable to the impact of restraint measures introduced in previous budgets. This was partially offset by costs incurred by Elections Canada in conducting the June 1997 federal election.

Public debt charges lower

Public debt charges were down \$0.6 billion, or 4.9 per cent, on a year-over-year basis. This decline was attributed to lower average effective interest rates on the federal government's net debt, which was only partially offset by the much slower growth in the stock of unmatured debt.

Financial requirements significantly lower

Financial requirements/source measure the difference between cash coming in to the government and cash going out. Financial requirements are usually lower than the budgetary deficit, as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and other financial assets and liabilities. These activities are included as part of non-budgetary transactions. In addition, the budgetary deficit is largely presented on the accrual basis of accounting. The conversion from accrual to cash is also reflected in non-budgetary transactions. Non-budgetary transactions usually provide the government with a net source of funds.

The Fiscal Monitor

Non-budgetary transactions provided the government with a net source of funds over the April to June 1997 period, amounting to \$50 million, compared to a net requirement of \$1.4 billion in the same period last year. Most of this change was attributable to a reopening of some bonds, which resulted in a one-time cash gain but has only minor impact on the monthly deficit as such gains are amortized over the life of the bond.

With a budgetary deficit of \$533 million and a net source of funds from non-budgetary transactions of \$50 million, financial requirements, excluding foreign exchange transactions, amounted to only \$483 million in the first quarter of 1997-98, compared to a net requirement of \$6.7 billion in the same period last year.

The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. It fulfills this function by buying foreign exchange (selling Canadian currency) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure. Foreign exchange transactions resulted in a net source of \$1.0 billion in the first three months of 1997-98, compared to a source of \$0.4 billion in the same period last year.

As a result, there was a financial source, including foreign exchange transactions, of \$0.6 billion in the April to June 1997 period. In the same period last year, there was a net requirement of \$6.2 billion.

In the first three months of 1997-98, the federal government reduced its holdings of unmatured debt by \$6.0 billion, compared to the same period in 1996-97. The structure of the government's debt has also changed significantly, in order to further reduce the exposure to unexpected changes in interest rates. The share of debt held in short-term floating rate instruments, primarily Treasury bills, has been reduced, while the share held in longer-term rate instruments has increased. Cash balances as of June 30, 1997 amounted to \$4.0 billion

The Debt Servicing and Reduction Account

In June 1991, legislation to establish the Debt Servicing and Reduction Account received Royal Assent. As a result, effective April 1, 1991, all goods and services tax revenues net of the applicable input tax credits, rebates and the low-income credit, along with the net proceeds from the sale of Crown corporations and gifts to the Crown identified for debt reduction must, by law, go directly to the Debt Servicing and Reduction Account. The funds in this Account can only be used to pay the cost of servicing the public debt and ultimately to reduce the debt. The Account is audited on an annual basis by the Auditor General of Canada.

Table 7

Debt Servicing and Reduction Account (DSRA)

	1991-92	1992-93	1993-94	1994-95	1995-96
	(millions of dollars)				
Gross GST collected	29,564	30,516	32,652	36,715	38,048
Less:					
Refunds and rebates	11,330	12,138	14,271	17,112	18,874
Quarterly low-income tax credit	2,262	2,503	2,685	2,816	2,799
Net GST	15,168	14,868	15,696	16,787	16,374
GST penalties and interest received	19	71	90	129	135
Gains from wind-up of interest in Crown corporations/disposal of shares in Crown corporations	2	110			325
Gifts to the Crown	0.4	0.1	0.2	0.5	0.3
Proceeds to the DSRA	15,190	15,050	15,786	16,916	16,835

Figures to 1995-96 are from the *Public Accounts of Canada*.

Note: Numbers in this newsletter may not add due to rounding.

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August 1997



The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for July 1997

Budgetary surplus in July 1997

A surplus of \$0.8 billion was recorded in July 1997, marking the third consecutive month in which a budgetary surplus was recorded – the first time that this has occurred since the early 1970s. This represents a net improvement in the federal government's budgetary position of \$2.0 billion from July 1996. Budgetary revenues were up \$1.0 billion (8.8 per cent), while program spending declined \$0.7 billion (8.1 per cent). Public debt charges were down \$0.3 billion (8.7 per cent).

The increase in budgetary revenues was spread throughout most major components. Corporate income tax collections were up \$0.4 billion, primarily reflecting continued strength in corporate profits. Employment insurance premium revenues increased \$0.2 billion, attributable to the acceleration of monthly payments. Goods and services tax (GST) collections increased \$0.2 billion, reflecting continued strength in consumer demand. Personal income tax collections were up \$0.2 billion, primarily due to gains in employment income, reflecting the recent advances in employment.

Most of the year-over-year decline in program spending was concentrated in transfers to other levels of government (down \$0.5 billion) for the Canada Health and Social Transfer (CHST) and Equalization. The lower direct cash transfers under the CHST reflected both the reduction in total entitlements as well as the rising value of the tax point transfers. The lower cash transfers under the Equalization program were largely attributable to an adjustment relating to an overpayment in a previous month. The decline in public debt charges reflected the impact of lower interest rates.

Budgetary surplus in April to July period

Over the first four months of the 1997-98 fiscal year, the federal government reported a surplus of \$0.3 billion. In the same period last year, a deficit of \$6.5 billion was reported. This turnaround was attributable to the

increasing strength in the economy, the impact of restraint measures introduced in the 1994 and 1995 budgets, and timing factors. Budgetary revenues were up \$4.3 billion (10.3 per cent), program spending declined \$1.6 billion (4.9 per cent), while public debt charges were \$0.9 billion lower (5.9 per cent).

Financial source in April to July period

In the first four months of 1997-98, there was a financial source of \$5.2 billion. This resulted from the budgetary surplus of \$0.3 billion, a net source of funds from non-budgetary transactions of \$0.9 billion and a net source of funds from foreign exchange transactions of \$4.0 billion, the latter due to net repayments of debt by the Exchange Fund Account. Cash balances were \$5.7 billion lower over the first four months of 1997-98. As a result, since the beginning of 1997-98, there has been a \$10.9 billion retirement of marketable debt.

Caution should be exercised in extrapolating these monthly results to date to gain an assessment of the possible outcome for the fiscal year as a whole. Some of the improvement to date is due to special factors, which will be reversed in future months, thereby having no impact on the outcome for the fiscal year as a whole, or to one-time developments that will not be repeated in future months. In the fall, the Minister of Finance will present the government's annual update on economic and fiscal developments. At that time, there will be an assessment of current developments on the government's deficit targets.

Budgetary revenues up

Over the April to July 1997 period, budgetary revenues were up \$4.3 billion, or 10.3 per cent. About three-quarters of this increase is attributable to stronger economic conditions. The rest was due to an acceleration in employment insurance premium revenues, which will be offset in coming months.



- Personal income tax collections were up \$1.6 billion, reflecting higher deductions at source from employment income, in line with the strong gains in employment, as well as higher taxes paid on filing, relating to stronger income growth in the 1996 taxation year.
- Corporate income tax collections were up \$1.0 billion, while other income taxes, primarily non-resident withholding taxes, increased by \$0.1 billion. These increases reflected the continued strength in corporate profits, in line with the strengthening economy.
- Employment insurance premium revenues were up \$1.2 billion. All of this increase reflected timing factors, which will be reversed in the latter half of the calendar year, thereby having no effect on the deficit outcome for 1997-98. In January 1997, there was a change to the base on which premium rates are levied, from weekly maximum insurable earnings to annual maximum insurable earnings. This change results in an acceleration of premium payments from the latter half of the calendar year to the first half. This change does not affect the amount paid by most employees and employers for the calendar year as a whole. However, those earning above the annual maximum insurable earnings will pay more of their premium liability earlier in the calendar year and less at the end.
- Goods and services tax collections were up \$0.4 billion, largely attributable to the strength in consumer demand.
- Declines in customs import duties, reflecting the impact of tariff reductions under multilateral trade agreements, more than offset the small increases in other excise taxes and duties and non-tax revenues.
- Major transfers to other levels of government were down \$1.3 billion, reflecting lower cash transfers under the Canada Health and Social Transfer and Equalization. In the February 1995 budget, the government set total entitlements under the CHST for 1997-98 at \$25.1 billion, down \$1.8 billion from 1996-97. These entitlements are paid to the provinces in the form of tax point transfers and cash. The tax point transfer component represents the value of "tax room" which the federal government made available to provinces, allowing the provinces to increase their tax rates by an equivalent amount, with no impact on the taxpayer. The value of the tax point transfer increases in line with the growth in the applicable tax bases. The cash transfer, therefore, is the difference between the entitlement and an increasing value in the tax point transfer. Being a residual, the cash transfer, which is part of program spending, is affected not only by the change in entitlements, but also by the growth in the value of the tax point transfer. Cash transfers under the CHST were down \$0.9 billion over the first four months of 1997-98, compared to the same period last year, of which about \$0.6 billion was attributable to the reduction in entitlements with the remainder due to the increase in the value of the tax point transfer. Equalization transfers were down \$0.3 billion. As indicated in the 1997 budget, these transfers are expected to be lower in 1997-98, reflecting lower provincial revenue growth due to tax reductions in some provinces, population shifts between equalization-receiving provinces and non-equalization-receiving provinces, as well as strong resource revenues in some of the equalization-receiving provinces.

Program spending lower

Program spending declined \$1.6 billion, or 4.9 per cent in the first four months of 1997-98, compared to the same period last year, with all major components lower. The decline in program spending was primarily attributable to the effect of the restraint measures introduced in the 1994 and 1995 budgets.

- Major transfers to persons declined \$0.2 billion, solely due to lower employment insurance benefits, as elderly benefits were up. The decline in employment insurance benefits was primarily due to lower average benefits and a decline in the number of beneficiaries, primarily reflecting the impact of reform measures.
- Direct program spending – that is, total program spending less the major transfers to persons and other levels of government – declined by \$0.1 billion. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. In contrast to the reduction in entitlements to other levels of government, which took effect in 1996-97, the restraint measures introduced in the 1994 and 1995 budgets resulted in significant reductions beginning in 1995-96. In addition, the restraint measures announced as part of the March 1996 budget Program Review exercise will further reduce spending in this component in 1998-99.

The Fiscal Monitor

Table 1
Summary statement of transactions

	July		April to July	
	1996	1997	1996-97	1997-98
	(millions of dollars)			
Budgetary transactions				
Revenues	11,129	12,106	41,405	45,674
Program spending	-8,288	-7,618	-32,415	-30,837
Operating surplus	2,841	4,488	8,990	14,837
Public debt charges	-3,996	-3,648	-15,440	-14,529
Deficit/surplus	-1,155	840	-6,450	308
Non-budgetary transactions	1,835	833	469	881
Financial requirements/source (excluding foreign exchange transactions)	680	1,673	-5,981	1,189
Foreign exchange transactions	118	2,922	565	3,970
Total financial requirements/source	798	4,595	-5,416	5,159
Unmatured debt transactions	1,566	-4,919	1,605	-10,875

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2
Budgetary revenues

	July		April to July		Per cent change
	1996	1997	1996-97	1997-98	
	(millions of dollars)				(%)
Income taxes					
Personal income tax	5,105	5,297	21,004	22,615	7.7
Corporate income tax	1,400	1,807	4,165	5,187	24.5
Other	230	303	743	859	15.7
Total income tax	6,735	7,407	25,912	28,661	10.6
Employment insurance premiums	1,587	1,815	6,162	7,378	19.8
Excise taxes and duties					
Goods and services tax	1,262	1,457	4,118	4,486	8.9
Customs import duties	202	229	682	563	-17.5
Other excise taxes/duties	757	653	2,475	2,518	1.7
Total excise taxes and duties	2,221	2,339	7,275	7,567	4.0
Total tax revenues	10,543	11,561	39,349	43,606	10.8
Non-tax revenues	586	545	2,056	2,068	0.6
Total budgetary revenues	11,129	12,106	41,405	45,674	10.3

The Fiscal Monitor

Table 6

Cash, unmatured debt and debt balances: at July 31

	1996	1997
	(millions of dollars)	
Cash balances at end of period		
In Canadian dollars	4,731	2,895
In foreign currencies	3	755
Total cash balance	4,734	3,650
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	265,293	287,801
Treasury bills	154,200	122,100
Canada Savings Bonds	30,375	32,286
Other	4,365	4,301
Subtotal	454,233	446,488
Less: Government's holdings of unmatured debt	375	429
Total	453,858	446,059
Payable in foreign currencies		
Marketable bonds	9,501	11,684
Notes and loans	0	0
Canada bills	6,943	6,569
Canada notes	921	1,795
Total	17,365	20,048
Total unmatured debt	471,223	466,107

In contrast, the reduction in CHST cash transfers, announced in the March 1996 budget for 1998-99, will not proceed. The government has proposed that cash transfers over the 1997-98 to 2002-03 period will never fall below \$12.5 billion – the level of cash transfers currently estimated for 1997-98. Within direct program spending, other transfer payments were up, primarily reflecting the timing of payments, while payments to Crown corporations, defence and all other departmental spending were lower. These declines primarily reflected the impact of restraint measures.

Public debt charges lower

Public debt charges were down \$0.9 billion, or 5.9 per cent, on a year-over-year basis. This decline was attributed to lower average effective interest rates on the federal government's debt, as well as a reduction in net borrowing requirements, reflecting the improvement in the overall budget situation.

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The Fiscal Monitor

Table 3
Budgetary expenditures

	July		April to July		Per cent change
	1996	1997	1996-97	1997-98	
	(millions of dollars)				(%)
Transfer payments to:					
Persons					
Elderly benefits	1,760	1,820	7,056	7,290	3.3
Employment insurance benefits	916	820	4,181	3,734	-10.7
Total	2,676	2,640	11,237	11,024	-1.9
Other levels of government					
Canada Health and Social Transfer	1,254	1,012	5,016	4,069	-18.9
Fiscal transfers	807	566	3,313	3,018	-8.9
Alternative Payments for Standing Programs	-169	-178	-674	-710	5.3
Total	1,892	1,400	7,655	6,377	-16.7
Subsidies and other transfers					
Agriculture	116	37	182	112	-38.5
Foreign Affairs	138	110	398	408	2.5
Human Resources Development	161	6	553	408	-26.2
Indian and Northern Development	181	281	1,464	1,569	7.2
Industry & Regional Development	79	97	333	404	21.3
Veterans Affairs	116	117	451	459	1.6
Other	263	289	818	1,104	35.0
Total	1,054	937	4,199	4,464	6.3
Total transfers	5,622	4,977	23,091	21,865	-5.3
Payments to Crown corporations					
Canadian Broadcasting Corporation	76	65	374	314	-16.0
Canada Mortgage and Housing Corporation	152	156	602	520	-13.7
Other	68	68	371	360	-2.8
Total	296	289	1,347	1,194	-11.4
Operating and capital expenditures					
Defence	741	746	2,506	2,397	-4.3
All other departmental expenditures	1,629	1,606	5,471	5,381	-1.6
Total	2,370	2,352	7,977	7,778	-2.5
Total program expenditures	8,288	7,618	32,415	30,837	-4.9
Public debt charges	3,996	3,648	15,440	14,529	-5.9
Total budgetary expenditures	12,284	11,266	47,855	45,366	-5.2

Table 4

The deficit and financial requirements/source

	July		April to July	
	1996	1997	1996-97	1997-98
	(millions of dollars)			
Deficit/surplus	-1,155	840	-6,450	308
Loans, investments and advances				
Crown corporations	387	157	551	83
Other	-23	-29	-250	-91
Total	364	128	301	-8
Specified purpose accounts				
Canada Pension Plan Account	-596	-479	641	690
Superannuation accounts	-174	-200	1,930	1,867
Other	51	-	11	-211
Total	-629	-679	2,582	2,346
Other transactions	2,100	1,384	-2,414	-1,457
Total non-budgetary transactions	1,835	833	469	881
Financial requirements/source (excluding foreign exchange transactions)	680	1,673	-5,981	1,189
Foreign exchange transactions	118	2,922	565	3,970
Total financial requirements/source	798	4,595	-5,416	5,159

Table 5

Financial requirements/source and unmatured debt transactions

	July		April to July	
	1996	1997	1996-97	1997-98
	(millions of dollars)			
Total financial requirements/source	798	4,595	-5,416	5,159
Unmatured debt transactions: payable in Canadian dollars				
Marketable bonds	5,400	-4,200	12,528	5,238
Canada Savings Bonds	-252	-298	-1,053	-1,207
Treasury bills	-4,300	1,700	-11,900	-13,300
Other	365	386	887	833
Less: Government's holdings	154	167	575	530
Total Canadian currency	1,367	-2,227	1,037	-7,906
Unmatured debt transactions: payable in foreign currencies				
Marketable bonds	-	-776	-	-776
Notes and loans	-	-	-	-
Canada bills	199	-1,590	-43	-1,867
Canada notes	-	-326	611	-326
Total foreign currencies	199	-2,692	568	-2,969
Total unmatured debt transactions	1,566	-4,919	1,605	-10,875
Change in cash balance	2,364	-324	-3,811	-5,716

The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for August 1997

Deficit down \$1.4 billion in August 1997

There was a deficit of \$0.5 billion in August 1997, down \$1.4 billion from August 1996. Budgetary revenues were up \$0.9 billion (9.3 per cent), while program spending declined \$0.4 billion (4.5 per cent). Public debt charges were down \$0.1 billion (1.4 per cent).

The increase in budgetary revenues was concentrated in personal and corporate income tax collections and goods and services tax (GST) collections. Personal income tax collections were up \$0.5 billion, primarily reflecting the recent advances in employment. Corporate income tax collections were up \$0.4 billion, primarily reflecting continued strength in corporate profits. Goods and services tax collections increased \$0.2 billion, reflecting continued strength in consumer demand. The decline in non-tax revenues was due to a correction for overstatements in previous months.

Most of the year-over-year decline in program spending was concentrated in transfers to other levels of government (down \$0.3 billion) and operating and capital expenditures of government departments (down \$0.2 billion). Within transfers to other levels of government, the decline in cash transfers under the Canada Health and Social Transfer (CHST) reflected both the reduction in total entitlements and the rising value of tax point transfers. The decline in public debt charges reflected the impact of lower interest rates.

Deficit for April to August 1997 down \$8.1 billion

Over the first five months of the 1997-98 fiscal year, the deficit amounted to \$0.2 billion, down \$8.1 billion from the same period a year ago. This turnaround was attributable to the impact of restraint measures introduced in the 1994 and 1995 budgets, the increasing strength in the economy, and timing factors, notably the acceleration of monthly employment insurance premium revenues within

the year. Budgetary revenues were up \$5.2 billion (10.1 per cent), program spending declined \$1.9 billion (4.8 per cent), while public debt charges were \$1.0 billion lower (5.0 per cent).

Financial surplus of \$5.4 billion in April to August period

In the first five months of 1997-98, there was a financial surplus of \$5.4 billion. This resulted from a net source of funds from foreign exchange transactions of \$3.9 billion, a net source of funds from non-budgetary transactions of \$1.7 billion and a budgetary deficit of \$0.2 billion. Cash balances were \$5.7 billion lower over the first five months of 1997-98. As a result, since the beginning of the 1997-98 fiscal year, the Government of Canada has been able to retire \$11.0 billion of marketable debt.

Caution should be exercised in extrapolating these monthly results to date to gain an assessment of the possible outcome for the fiscal year as a whole. Some of the improvement to date is due to special factors – for example, the increase in employment insurance premium revenues, which will be reversed in future months, thereby having no impact on the outcome for the fiscal year as a whole, or to one-time developments (increase in personal income tax collections due to taxes paid on filing related to the 1996 taxation year) that will not be repeated in future months.

Budgetary revenues up in April to August period

Over the April to August 1997 period, budgetary revenues were up \$5.2 billion, or 10.1 per cent. About three-quarters of this increase is attributable to stronger economic conditions. The rest was due to an acceleration in employment insurance premium revenues, which will be offset in coming months.



The Fiscal Monitor

Table 1

Summary statement of transactions

	August		April to August	
	1996	1997	1996-97	1997-98
	(millions of dollars)			
Budgetary transactions				
Revenues	9,992	10,925	51,398	56,599
Program spending	-8,187	-7,816	-40,602	-38,653
Operating surplus	1,805	3,109	10,796	17,946
Public debt charges	-3,688	-3,635	-19,128	-18,164
Deficit/surplus	-1,883	-526	-8,332	-218
Non-budgetary transactions	1,257	824	1,728	1,706
Financial requirements/surplus (excluding foreign exchange transactions)	-626	298	-6,604	1,488
Foreign exchange transactions	556	-97	1,121	3,873
Total financial requirements/surplus	-70	201	-5,483	5,361
Unmatured debt transactions	-427	-153	1,178	-11,028

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

- Personal income tax collections were up \$2.1 billion, reflecting higher deductions at source from employment income, in line with the strong gains in employment, as well as higher taxes paid on filing, relating to stronger income growth in the 1996 taxation year.
- Corporate income tax collections were up \$1.4 billion, while other income taxes, primarily non-resident withholding taxes, increased by \$0.1 billion. These increases reflected the continued strength in corporate profits, in line with the strengthening economy.
- Employment insurance premium revenues were up \$1.3 billion. All of this increase reflected timing factors, which will be reversed in the latter half of the calendar year, thereby having no effect on the deficit outcome for 1997-98. In January 1997, there was a change to the base on which premium rates are levied, from weekly maximum insurable earnings to annual maximum insurable earnings. This change results in an acceleration of premium payments from the latter half of the calendar year to the first half. This change does not affect the amount paid by most employees and employers for the calendar year as a whole. However, those earning above the annual maximum insurable earnings will pay more of their premium liability earlier in the calendar year and less at the end.
- Good and services tax collections were up \$0.6 billion, largely attributable to the strength in consumer demand.
- The decline in customs import duties reflected the impact of tariff reductions under multilateral trade agreements. Other excise taxes and duties were up slightly.
- The decline in non-tax revenues was attributable to lower earnings on investments, reflecting the impact of the decline in interest rates.

Program spending lower in April to August period

Program spending declined \$1.9 billion, or 4.8 per cent in the first five months of 1997-98, compared to the same period last year, with all major components lower. The decline in program spending was primarily attributable to the effect of the restraint measures introduced in the 1994 and 1995 budgets.

- Major transfers to persons declined \$0.2 billion, solely due to lower employment insurance benefits, as elderly benefits were up. The decline in employment insurance benefits was primarily due to lower average benefits and a decline in the number of beneficiaries, primarily reflecting the impact of reform measures.

The Fiscal Monitor

Table 2

Budgetary revenues

	August		April to August		Per cent change
	1996	1997	1996-97	1997-98	
	(millions of dollars)				(%)
Income taxes					
Personal income tax	4,573	5,071	25,577	27,686	8.2
Corporate income tax	873	1,251	5,038	6,438	27.8
Other income tax revenue	152	134	895	993	10.9
Total income tax	5,598	6,456	31,510	35,117	11.4
Employment insurance premium revenues	1,609	1,677	7,771	9,055	16.5
Excise taxes and duties					
Goods and services tax	1,323	1,545	5,441	6,031	10.8
Customs import duties	223	237	905	799	-11.7
Other excise taxes and duties	726	733	3,201	3,252	1.6
Total excise taxes and duties	2,272	2,515	9,547	10,082	5.6
Total tax revenues	9,479	10,648	48,828	54,254	11.1
Non-tax revenues	513	277	2,570	2,345	-8.8
Total budgetary revenues	9,992	10,925	51,398	56,599	10.1

Major transfers to other levels of government were down \$1.6 billion, reflecting lower cash transfers under the Canada Health and Social Transfer and Equalization. In the February 1995 budget, the government set total entitlements under the CHST for 1997-98 at \$25.1 billion, down \$1.8 billion from 1996-97. These entitlements are paid to the provinces in the form of tax point transfers and cash. The tax point transfer component represents the value of "tax room" which the federal government made available to provinces, allowing the provinces to increase their tax rates by an equivalent amount, with no impact on the taxpayer. The value of the tax point transfer increases in line with the growth in the applicable tax bases. The cash transfer, therefore, is the difference between the entitlement and an increasing value in the tax point transfer. Being a residual, the cash transfer, which is part of program spending, is affected not only by the change in entitlements, but also by the growth in the value of the tax point transfer. Cash transfers under the CHST were down \$1.2 billion over the first five months of 1997-98, compared to the same period last year, of which about \$0.8 billion was attributable to the reduction in entitlements with the remainder due to the increase in the value of the tax point transfer. Equalization

transfers were down \$0.3 billion. As indicated in the 1997 budget, these transfers are expected to be lower in 1997-98, reflecting lower provincial revenue growth due to tax reductions in some provinces, population shifts between equalization-receiving provinces and the non-equalization-receiving provinces, as well as strong resource revenues in some of the equalization-receiving provinces.

- Direct program spending – that is, total program spending less the major transfers to persons and other levels of government – declined by \$0.1 billion. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. In contrast to the reduction in entitlements to other levels of government, which took effect in 1996-97, the restraint measures introduced in the 1994 and 1995 budgets resulted in significant reductions beginning in 1995-96. In addition, the restraint measures announced as part of the March 1996 budget Program Review exercise will further reduce spending in this component in 1998-99. In contrast, the reduction in CHST cash transfers, announced in the March 1996 budget for 1998-99, will not proceed. The government has proposed that cash

The Fiscal Monitor

Table 6

Cash, unmatured debt and debt balances: at August 31

	1996	1997
	(millions of dollars)	
Cash balances at end of period		
In Canadian dollars	4,207	3,541
In foreign currencies	31	157
Total cash balance	4,238	3,698
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	265,393	291,401
Treasury bills	153,900	117,500
Canada Savings Bonds	30,157	32,049
Other	4,364	4,300
Subtotal	453,814	445,250
Less: Government's holdings of unmatured debt	357	320
Total	453,457	444,930
Payable in foreign currencies		
Marketable bonds	9,514	11,745
Notes and loans	0	0
Canada bills	6,834	7,486
Canada notes	921	1,795
Total	17,269	21,026
Total unmatured debt	470,726	465,956

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October 1997



The Fiscal Monitor

Table 3
Budgetary expenditures

	August		April to August		
	1996	1997	1996-97	1997-98	Per cent change
	(millions of dollars)				(%)
Transfer payments to:					
Persons					
Elderly benefits	1,784	1,858	8,839	9,148	3.5
Employment insurance benefits	941	836	5,122	4,569	-10.8
Total	2,725	2,694	13,961	13,717	-1.7
Other levels of government					
Canada Health and Social Transfer	1,254	1,026	6,270	5,095	-18.7
Fiscal transfers	810	755	4,123	3,772	-8.5
Alternative Payments for Standing Programs	-169	-178	-844	-888	5.2
Total	1,895	1,603	9,549	7,979	-16.4
Subsidies and other transfers					
Agriculture	61	33	243	145	-40.3
Foreign Affairs	149	138	548	545	-0.5
Human Resources Development	-39	86	514	493	-4.1
Indian and Northern Development	243	248	1,707	1,817	6.4
Industry & Regional Development	168	164	501	568	13.4
Veterans Affairs	112	112	563	570	1.2
Other	135	217	953	1,320	38.5
Total	829	998	5,029	5,458	8.5
Total transfers	5,449	5,295	28,539	27,154	-4.9
Payments to Crown corporations					
Canadian Broadcasting Corporation	66	65	440	379	-13.9
Canada Mortgage and Housing Corporation	119	119	722	639	-11.5
Other	123	108	494	469	-5.1
Total	308	292	1,656	1,487	-10.2
Operating and capital expenditures					
Defence	849	750	3,355	3,146	-6.2
All other departmental expenditures	1,581	1,479	7,052	6,866	-2.6
Total	2,430	2,229	10,407	10,012	-3.8
Total program expenditures	8,187	7,816	40,602	38,653	-4.8
Public debt charges	3,688	3,635	19,128	18,164	-5.0
Total budgetary expenditures	11,875	11,451	59,730	56,817	-4.9

transfers over the 1997-98 to 2002-03 will never fall below \$12.5 billion – the level of cash transfers currently estimated for 1997-98. Within direct program spending, other transfer payments were up, primarily reflecting the timing of payments, while payments to Crown corporations, defence and all other departmental spending were lower. These declines primarily reflected the impact of restraint measures.

Public debt charges lower in April to August period

Public debt charges were down \$1.0 billion, or 5.0 per cent, on a year-over-year basis. This decline was attributed to lower average effective interest rates on the federal government's debt, as well as a reduction in net borrowing requirements, reflecting the improvement in the overall budget situation.

Table 4

The deficit and financial requirements/surplus

	August		April to August	
	1996	1997	1996-97	1997-98
	(millions of dollars)			
Deficit(-)/surplus(+)	-1,883	-526	-8,332	-218
Loans, investments and advances				
Crown corporations	58	57	609	140
Other	1	41	-249	-49
Total	59	98	360	91
Specified purpose accounts				
Canada Pension Plan Account	-305	-289	336	400
Superannuation accounts	-209	-985	1,721	882
Other	56	-91	69	-302
Total	-458	-1,365	2,126	980
Other transactions	1,656	2,091	-758	635
Total non-budgetary transactions	1,257	824	1,728	1,706
Financial requirements/surplus (excluding foreign exchange transactions)	-626	298	-6,604	1,488
Foreign exchange transactions	556	-97	1,121	3,873
Total financial requirements/surplus	-70	201	-5,483	5,361

Table 5

Financial requirements/surplus and unmatured debt transactions

	August		April to August	
	1996	1997	1996-97	1997-98
	(millions of dollars)			
Total financial requirements/surplus	-70	201	-5,483	5,361
Unmatured debt transactions				
Payable in Canadian dollars				
Marketable bonds	100	3,600	12,628	8,838
Canada Savings Bonds	-218	-237	-1,271	-1,444
Treasury bills	-300	-4,600	-12,200	-17,900
Other	-1	-1	886	832
Subtotal	-419	-1,238	43	-9,674
Less: Government's holdings of unmatured debt	102	107	677	638
Total	-317	-1,131	720	-9,036
Payable in foreign dollars				
Marketable bonds	0	61	0	-716
Notes and loans	0	0	0	0
Canada bills	-110	917	-153	-950
Canada notes	0	0	611	-326
Total	-110	978	458	-1,992
Total unmatured debt transactions	-427	-153	1,178	-11,028
Change in cash balance	-497	48	-4,305	-5,667

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The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for September 1997

Budgetary surplus of \$2.0 billion recorded in September 1997

A surplus of \$2.0 billion was recorded in September 1997 – a net improvement of \$0.6 billion from the surplus of \$1.3 billion recorded in September 1996. Budgetary revenues were up \$0.3 billion (2.5 per cent), while program spending declined \$0.3 billion (4.2 per cent). Public debt charges were up slightly.

The increase in budgetary revenues was primarily due to higher corporate income tax collections (up \$0.3 billion), reflecting the continued strength in corporate profits. Personal income tax collections were up \$0.1 billion, primarily attributable to higher installment payments. The decline in goods and services tax collections was largely due to unusually low refunds reported in September 1996. Employment insurance premium revenues were also below last year's level, reflecting the impact of the change in remittance requirements that came into effect in January 1997.

The decline in program spending reflected the impact of previous budget actions. Lower spending was reported in all major components with the exception of transfers to persons and expenditures related to Crown corporations. Within major transfers to persons, employment insurance benefits were up, as higher expenditures for training programs more than offset lower regular benefit payments. The increase in expenditures related to Crown corporations reflected timing considerations. The slight increase in public debt charges was attributable to accrual adjustments related to previous periods.

Deficit for April to September 1997 down \$8.7 billion

Over the first six months of the 1997-98 fiscal year, a surplus of \$1.7 billion was reported, an improvement of \$8.7 billion from the same period last year. This year-over-year improvement was largely attributable to the increasing strength in the economy and the impact of previous budget measures. Budgetary revenues were up \$5.5 billion (8.6 per cent), program spending declined \$2.3 billion (4.7 per cent), while public debt charges were \$0.9 billion lower (4.0 per cent).

Financial surplus

With a budgetary surplus of \$1.7 billion and a net source of funds from non-budgetary transactions of \$1.4 billion, there was a financial surplus, excluding foreign exchange transactions, of \$3.1 billion, compared to a net requirement of \$4.3 billion over the same period last year. Foreign exchange transactions provided the government with a net source of funds amounting to \$3.3 billion over the April to September 1997 period, compared to a net source of \$0.3 billion over the six months in 1996-97. As a result, there was a total financial surplus of \$6.4 billion to date, compared to a net requirement of \$3.9 billion over the same period last year. There was a net repayment of marketable debt of \$13.0 billion in the first six months of 1997-98.

In the October 15, 1997 *Economic and Fiscal Update*, the government indicated that the budget would be balanced no later than 1998-99. However, caution should be exercised in extrapolating these monthly results to gain an assessment of the possible outcome for the year as a whole. Some of the improvement to date was due to special factors – for example, all of the year-to-date increase in employment insurance premiums will be reversed by the end of the calendar year, thereby having no impact on the budget outcome for the year as a whole – or to one-time developments (part of the increase in personal income tax collections due to higher taxes paid on filing, in respect of the 1996 taxation year).



The Fiscal Monitor

Table 1

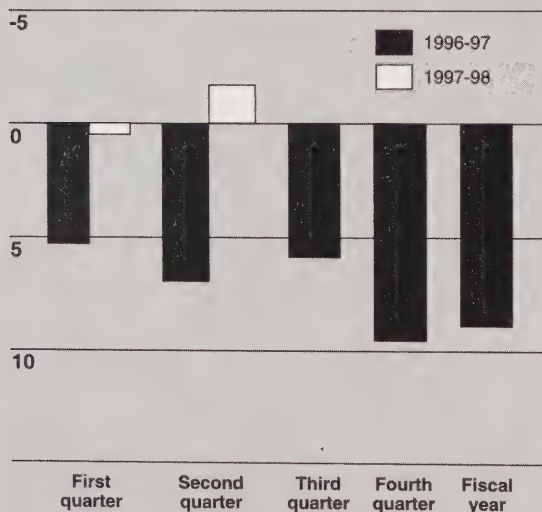
Summary statement of transactions

	September		April to September	
	1996	1997	1996-97	1997-98
	(millions of dollars)			
Budgetary transactions				
Revenues	13,176	13,505	64,574	70,104
Program spending	-8,213	-7,865	-48,815	-46,518
Operating surplus	4,963	5,640	15,759	23,586
Public debt charges	-3,635	-3,681	-22,763	-21,845
Deficit/surplus	1,328	1,959	-7,004	1,741
Non-budgetary transactions	1,030	-303	2,754	1,403
Financial requirements/surplus (excluding foreign exchange transactions)	2,358	1,656	-4,250	3,144
Foreign exchange transactions	-791	-585	330	3,288
Total financial requirements/surplus	1,567	1,071	-3,920	6,432
Unmatured debt transactions	-1,578	-1,991	-400	-13,019

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

The federal budgetary balance 1996-97 and 1997-98

Year to date
billions of dollars



Budgetary revenues up in April to September period

Over the April to September 1997 period, budgetary revenues were up \$5.5 billion, or 8.6 per cent, on a year-over-year basis. Of this increase, \$1.2 billion was attributable to the acceleration of employment insurance premium revenues, which will be reversed over the latter half of the calendar year, with the remainder attributable to continued strength in the economy.

- Personal income tax collections were up \$2.2 billion, or 6.8 per cent. This increase was due to higher taxes paid on filing and quarterly installment payments, relating to the 1996 taxation year and to higher deductions at source from employment, in line with the strong gains in employment this year.
- Corporate income tax collections were up \$1.7 billion, or 28.3 per cent, attributable to an increase in corporate profits, in line with the strengthening economy.
- Employment insurance premium revenues were up \$1.2 billion, or 12.8 per cent. This increase was entirely attributable to timing considerations, which will be reversed over the latter half of the calendar

Table 2

Budgetary revenues

	September		April to September		Per cent change
	1996	1997	1996-97	1997-98	
	(millions of dollars)				(%)
Income taxes					
Personal income tax	6,866	6,953	32,443	34,639	6.8
Corporate income tax	1,059	1,384	6,096	7,822	28.3
Other income tax revenue	187	198	1,081	1,191	10.2
Total income tax	8,112	8,535	39,620	43,652	10.2
Employment insurance premium revenues	1,616	1,538	9,387	10,593	12.8
Excise taxes and duties					
Goods and services tax	1,982	1,873	7,423	7,904	6.5
Customs import duties	240	262	1,145	1,061	-7.3
Sales and excise taxes	753	808	3,954	4,059	2.7
Total excise taxes and duties	2,975	2,943	12,522	13,024	4.0
Total tax revenues	12,703	13,016	61,529	67,269	9.3
Non-tax revenues	473	489	3,045	2,835	-6.9
Total budgetary revenues	13,176	13,505	64,574	70,104	8.6

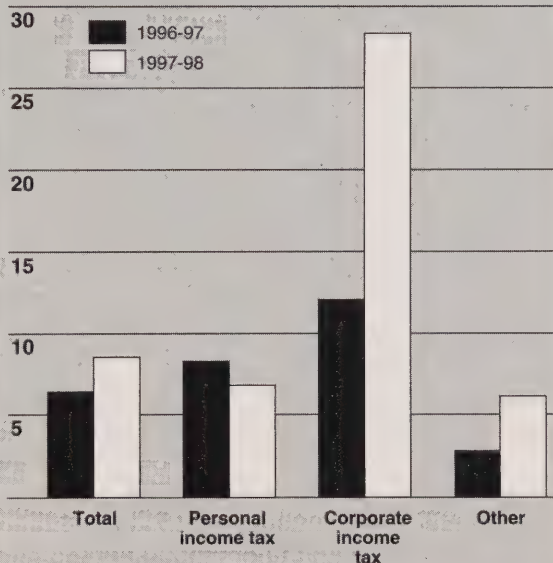
year, thereby having no effect on the deficit outcome for 1997-98. In January 1997, there was a change to the base on which premiums are levied, from weekly maximum insurable earnings to annual maximum insurable earnings. This change results in an acceleration of premium payments from the last four months of the calendar year to the first eight months. This change does not affect the amount paid by most employees and employers for the calendar year as a whole. However, those earning above the annual maximum insurable earnings will pay more of their premium liability earlier in the calendar year and less at the end.

- Net GST collections were up \$0.5 billion, or 6.5 per cent, in line with the continued strength in consumer demand.
- Customs import duties were down \$0.1 billion, or 7.3 per cent, in large part reflecting the impact of tariff reductions. Other excise taxes and duties were up \$0.1 billion, or 2.7 per cent, primarily reflecting higher receipts from energy taxes.
- Non-tax revenues, consisting of return on investments and other non-tax revenues, such as fees and proceeds from sales, among others, were down \$0.2 billion or 6.9 per cent, primarily reflecting lower earnings on investments, due to the effect of lower interest rates.

Budgetary revenues 1996-97 and 1997-98

April to September
Year-over-year growth

per cent change



Program spending lower in April to September period

Program spending declined by \$2.3 billion, or 4.7 per cent, in the first six months of 1997-98, compared to the same period last year. The decline in program spending was primarily attributable to the effect of the restraint measures introduced in the 1994 and 1995 budgets, and to a lesser extent, the growth in the economy.

- Major transfers to persons declined \$0.2 billion, solely due to lower employment insurance benefits, as elderly benefits were up. The decline in employment insurance benefits was primarily due to lower average benefits and a decline in the number of beneficiaries, primarily reflecting the impact of reform measures and a decline in the number of unemployed.
- Major transfers to other levels of government were down \$1.9 billion, reflecting lower cash transfers under the Canada Health and Social Transfer (CHST) and Equalization. In the February 1995 budget, the government set total entitlements under the CHST for 1997-98 at \$25.1 billion, down \$1.8 billion from 1996-97. These entitlements are paid to the provinces in the form of tax point transfers and cash. The tax point transfer component represents the value of "tax room" which the federal government made available to provinces, allowing the provinces to increase their tax rates by an equivalent amount, with no impact on the taxpayer. The value of the tax point transfer increases in line with the growth in the applicable tax bases. The cash transfer, therefore, is the difference between the entitlement and an increasing value in the tax point transfer. Being a residual, the cash transfer, which is part of program spending, is affected not only by the change in entitlements, but also by the growth in the value of the tax point transfer. Cash transfers under the CHST were down \$1.4 billion over the first six months of 1997-98, compared to the same period last year, of which about \$1 billion was attributable to the reduction in entitlements with the remainder due to the increase in the value of the tax point transfer. Equalization transfers were down \$0.4 billion. As indicated in the 1997 budget, these transfers are expected to be lower in 1997-98, reflecting lower provincial revenue growth due to tax reductions in some provinces, population shifts between equalization-receiving provinces and the non-equalization-receiving provinces, as well as strong resource revenues in some of the equalization-receiving provinces.

- Direct program spending – that is, total program spending less the major transfers to persons and other levels of government – declined by \$0.3 billion. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. In contrast to the reduction to entitlements to other levels of government, which took effect in 1996-97, the restraint measures introduced in the 1994 and 1995 budgets resulted in significant reductions beginning in 1995-96. In addition, the restraint measures announced as part of the March 1996 budget Program Review exercise will further reduce spending in this component in 1998-99. In contrast, the reduction in CHST cash transfers, announced in the March 1996 budget for 1998-99, will not proceed. The government has committed to increase the \$11 billion cash component to \$12.5 billion. Therefore, cash transfers to the provinces over the 1997-98 to 2002-03 period will not fall below \$12.5 billion – the level of cash transfers currently estimated for 1997-98. Within direct program spending, other transfer payments were up, primarily due to payments associated with the sale of the Air Navigation System to Nav Canada, while expenditures relating to Crown corporations, defence and all other departmental spending were lower. These declines primarily reflected the impact of restraint measures.

Budgetary expenditures 1996-97 and 1997-98

April to September
Year-over-year growth

per cent change

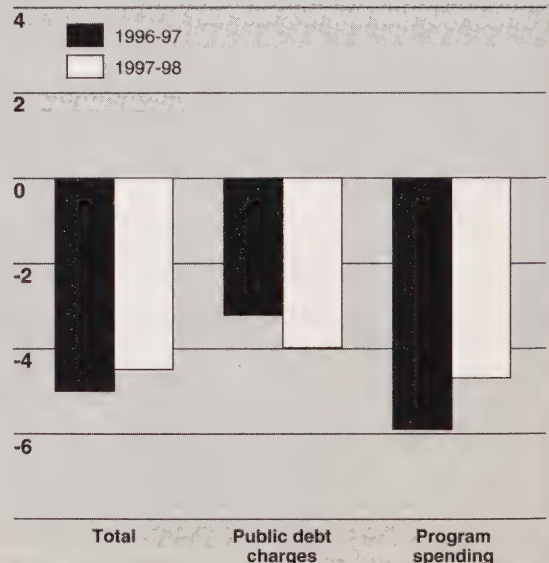


Table 3

Budgetary expenditures

	September		April to September		Per cent change
	1996	1997	1996-97	1997-98	
	(millions of dollars)				(%)
Transfer payments to:					
Persons					
Elderly benefits	1,825	1,866	10,664	11,014	3.3
Employment insurance benefits	826	856	5,948	5,425	-8.8
Total	2,651	2,722	16,612	16,439	-1.0
Other levels of government					
Canada Health and Social Transfer	1,254	1,012	7,524	6,107	-18.8
Fiscal transfers	789	755	4,912	4,527	-7.8
Alternative Payments for Standing Programs	-169	-178	-1,013	-1,065	5.1
Total	1,874	1,589	11,423	9,569	-16.2
Subsidies and other transfers					
Agriculture	68	71	311	216	-30.5
Foreign Affairs	133	127	681	672	-1.3
Human Resources Development	176	124	690	618	-10.4
Indian and Northern Development	301	312	2,009	2,129	6.0
Industry and Regional Development	72	99	573	667	16.4
Veterans Affairs	113	118	676	688	1.8
Other	259	237	1,212	1,557	28.5
Total	1,122	1,088	6,152	6,547	6.4
Total transfers	5,647	5,399	34,187	32,555	-4.8
Payments to Crown corporations					
Canadian Broadcasting Corporation	64	69	504	448	-11.1
Canada Mortgage and Housing Corporation	152	118	874	757	-13.4
Other	72	108	566	576	1.8
Total	288	295	1,944	1,781	-8.4
Operating and capital expenditures					
Defence	768	759	4,123	3,905	-5.3
All other departmental expenditures	1,510	1,412	8,561	8,277	-3.3
Total	2,278	2,171	12,684	12,182	-4.0
Total program expenditures	8,213	7,865	48,815	46,518	-4.7
Public debt charges	3,635	3,681	22,763	21,845	-4.0
Total budgetary expenditures	11,848	11,546	71,578	68,363	-4.5

The Fiscal Monitor

Table 4

The deficit and financial requirements/surplus

	September		April to September	
	1996	1997	1996-97	1997-98
	(millions of dollars)			
Deficit/surplus	1,328	1,959	-7,004	1,741
Loans, investments and advances				
Crown corporations	148	249	758	389
Other	132	-115	-383	-164
Total	16	134	375	225
Specified purpose accounts				
Canada Pension Plan Account	484	425	819	825
Superannuation accounts	2,562	2,686	4,283	3,568
Other	20	30	88	-272
Total	3,066	3,141	5,190	4,121
Other transactions	-2,052	-3,578	-2,811	-2,943
Total non-budgetary transactions	1,030	-303	2,754	1,403
Financial requirements/surplus (excluding foreign exchange transactions)	2,358	1,656	-4,250	3,144
Foreign exchange transactions	-791	-585	330	3,288
Total financial requirements/surplus	1,567	1,071	-3,920	6,432

Table 5

Financial requirements/surplus and unmatured debt transactions

	September		April to September	
	1996	1997	1996-97	1997-98
	(millions of dollars)			
Total financial requirements/surplus	1,567	1,071	-3,920	6,432
Unmatured debt transactions				
Payable in Canadian dollars				
Marketable bonds	950	1,012	13,578	9,850
Canada Savings Bonds	-206	-195	-1,477	-1,639
Treasury bills	-1,700	-2,200	-13,900	-20,100
Other	-527	-453		380
Subtotal	-1,483	-1,836	-1,799	-11,509
Less: Government's holding of unmatured debt	113	119	790	756
Total	-1,370	-1,717	-1,009	-10,753
Payable in foreign currencies				
Marketable bonds	0	0	0	-716
Notes and loans	0	0	0	0
Canada bills	-208	-274	-361	-1,224
Canada notes	0	0	611	-326
Total	-208	-274	250	-2,266
Total unmatured debt transactions	-1,578	-1,991	-759	-13,019
Change in cash balance	-11	-920	-4,679	-6,587

Table 6

Cash, unmatured debt and debt balances: at September 30

	1996	1997
	(millions of dollars)	
Cash balances at end of period		
In Canadian dollars	4,207	2,715
In foreign currencies	19	63
Total cash balance	4,226	2,778
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	266,343	292,413
Treasury bills	152,200	115,300
Canada Savings Bonds	29,951	31,855
Other	3,837	3,848
Subtotal	452,331	443,416
Less: Government's holdings of unmatured debt	244	202
Total	452,087	443,214
Payable in foreign dollars		
Marketable bonds	9,514	11,744
Notes and loans	0	0
Canada bills	6,625	7,212
Canada notes	921	1,795
Total	17,060	20,751
Total unmatured debt	469,147	463,965

Public debt charges lower in April to September period

Public debt charges were down \$0.9 billion, or 4.0 per cent, on a year-over-year basis. This decline was attributed to lower average effective interest rates on the federal government's debt, as well as a reduction in net borrowing requirements, reflecting the improvement in the overall budget situation.

Financial surplus in April to September period

Financial requirements/surplus measure the difference between cash coming in to the government and cash going out. Financial requirements are usually lower than the budgetary deficit, as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and other financial assets and liabilities. These activities are included as part of non-budgetary transactions. In addition, the budgetary deficit is largely presented on the accrual basis of accounting. The conversion from

accrual to cash is also reflected in non-budgetary transactions. Non-budgetary transactions usually provide the government with a net source of funds.

Non-budgetary transactions provided the government with a net source of funds over the April to September 1997 period, amounting to \$1.4 billion, compared to a net source of \$2.8 billion in the same period last year. The lower source was attributable to the transfer of applicable pension assets to Nav Canada and the special one-time payment to the Canada Foundation for Innovation.

With a budgetary surplus of \$1.7 billion and a net source of funds from non-budgetary transactions of \$1.4 billion, there was a financial surplus, excluding foreign exchange transactions, of \$3.1 billion in the first six months of 1997-98, compared to a net requirement of \$4.3 billion in the same period last year.

The purpose of the Foreign Exchange Account is to promote order and stability in the foreign exchange market. It fulfills this function by buying foreign exchange (selling Canadian currency) when there is

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upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure. Foreign exchange transactions resulted in a net source of \$3.3 billion in the first six months of 1997-98, compared to a source of \$0.3 billion in the same period last year.

As a result, there was a financial surplus, including foreign exchange transactions, of \$6.4 billion in the April to September 1997 period. In the same period last year, there was a net requirement of \$3.9 billion.

In the first six months of 1997-98, the federal government retired \$13.0 billion of its marketable debt. The structure of the government's debt has also changed significantly, in order to reduce further the exposure to unexpected changes in interest rates. The share of debt held in short-term floating rate instruments, primarily Treasury bills, has been reduced, while the share held

in longer-term rate instruments has increased. Cash balances as of September 30, 1997 amounted to \$2.8 billion.

The Debt Servicing and Reduction Account

In June 1991, legislation to establish the Debt Servicing and Reduction Account received Royal Assent. As a result, effective April 1, 1991, all goods and services tax revenues net of the applicable input tax credits, rebates and the low-income credit, along with the net proceeds from the sale of Crown corporations and gifts to the Crown identified for debt reduction, must, by law, go directly to the Debt Servicing and Reduction Account. The funds in this Account can only be used to pay the cost of servicing the public debt and, ultimately, to reduce the debt. The Account is audited on an annual basis by the Auditor General of Canada.

Table 7

Debt Servicing and Reduction Account (DSRA)

	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
	(millions of dollars)					
Gross GST collected	29,564	30,516	32,652	36,715	38,048	40,733
Less:						
Refunds and rebates	11,330	12,138	14,271	17,112	18,874	19,782
Quarterly low-income tax credit	2,262	2,503	2,685	2,816	2,799	2,872
Net GST	15,168	14,868	15,696	16,787	16,374	18,079
GST penalties and interest received	19	71	90	129	135	159
Gains from wind-up of interest in Crown corporations/disposal of shares in Crown corporations	2	110			325	
Gifts to the Crown	0.4	0.1	0.2	0.5	0.3	0.3
Proceeds to the DSRA	15,190	15,050	15,786	16,916	16,835	18,238

Source: *Public Accounts of Canada - 1997*

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November 1997



Highlights of financial results for October 1997

Deficit of \$0.9 billion in October 1997

There was a deficit of \$0.9 billion in October 1997, up \$0.4 billion from October 1996. However, the October 1996 deficit figures included the one-time cash proceed of \$1.5 billion from the sale of the Air Navigation System. Excluding this impact from the October 1996 results, the underlying improvement on a year-over-year basis was \$1.1 billion.

On a year-over-year basis, budgetary revenues declined \$0.9 billion (7.2 per cent). Excluding the impact of the sale of the Air Navigation System in October 1996, the underlying increase in budgetary revenues was \$0.6 billion, or 6.0 per cent. Within budgetary revenues, personal income tax collections were up \$0.4 billion, primarily reflecting the advances in employment; corporate income tax collections were up \$0.1 billion, primarily reflecting continued strength in corporate profits; while goods and services tax (GST) collections increased \$0.3 billion, reflecting continued strength in consumer demand. Employment insurance premium revenues were \$0.2 billion lower, reflecting the impact of the change in remittance requirements that came into effect in January 1997. Non-tax revenues were \$1.7 billion lower, primarily due to the one-time impact in October 1996 of the proceeds from the sale of the Air Navigation System.

Program spending was again lower on a year-over-year basis – down \$0.2 billion (2.5 per cent) from October 1996. Most of this decline was concentrated in lower employment insurance benefits and transfers to other levels of government. Within transfers to other levels of government, the decline in cash transfers under the Canada Health and Social Transfer (CHST) reflected both the reduction in total entitlements and the rising value of tax point transfers.

Public debt charges were \$0.2 billion (5.1 per cent) lower than in October 1996, reflecting the impact of lower interest rates.

Surplus for April to October 1997 of \$0.8 billion

Over the first seven months of the 1997-98 fiscal year, there was a surplus of \$0.8 billion. This was an improvement of \$8.3 billion from the deficit of \$7.5 billion reported for the first seven months of 1996-97. This turnaround was attributable to the increasing strength in the economy, the impact of restraint measures introduced in the 1994 and 1995 budgets, and timing factors, notably the acceleration of monthly employment insurance premium revenues within the year. Budgetary revenues were up \$4.7 billion (6.1 per cent), program spending declined \$2.5 billion (4.4 per cent), while public debt charges were \$1.1 billion lower (4.2 per cent).

Financial surplus of \$7.5 billion in April to October period

With a budgetary surplus of \$0.8 billion and a net source of funds from non-budgetary transactions of \$2.7 billion, there was a financial surplus, excluding foreign exchange transactions, of \$3.5 billion, an improvement of \$7.9 billion from the same period in 1996-97. There was a net source of funds amounting to \$4.0 billion from foreign exchange transactions. In total, therefore, there was a financial surplus of \$7.5 billion, an improvement of \$13.0 billion from the same period last year. Cash balances were \$3.9 billion lower over the first seven months of 1997-98. As a result, since the beginning of the 1997-98 fiscal year, there has been a \$11.0 billion retirement of marketable debt.

Caution should be exercised in extrapolating these monthly results to date to gain an assessment of the possible outcome for the fiscal year as a whole. Some of the improvement to date is due to special factors – for example, the increase in employment insurance premium revenues, which will be reversed in future months, thereby having no impact on the outcome for the fiscal year as a whole, or to one-time developments (increase in personal income tax collections due to taxes paid on filing related to the 1996 taxation year) that will not be repeated in

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Table 1
Summary statement of transactions

	October		April to October	
	1996	1997	1996-97	1997-98
	(millions of dollars)			
Budgetary transactions				
Revenues	12,080	11,216	76,654	81,320
Program spending	-8,746	-8,529	-57,561	-55,046
Operating surplus	3,334	2,687	19,093	26,274
Public debt charges	-3,830	-3,633	-26,593	-25,479
Deficit/surplus	-496	-946	-7,500	795
Non-budgetary transactions	344	1,317	3,102	2,719
Financial requirements/surplus (excluding foreign exchange transactions)	-152	371	-4,398	3,514
Foreign exchange transactions	-1,457	677	-1,127	3,965
Total financial requirements/surplus	-1,609	1,048	-5,525	7,459
Unmatured debt transactions	45	1,614	-355	-11,405

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

future months. In the October 15, 1997 *Economic and Fiscal Update*, the government indicated that the budget would be balanced no later than 1998-99.

Budgetary revenues up in April to October period

Over the April to October 1997 period, budgetary revenues were up \$4.7 billion, or 6.1 per cent. Most of this increase was attributable to the strength in the economy.

- Personal income tax collections were up \$2.6 billion, reflecting higher deductions at source from employment income, in line with the strong gains in employment, as well as higher taxes paid on filing, relating to income growth in the 1996 taxation year.
- Corporate income tax collections were up \$1.9 billion, while other income taxes, primarily non-resident withholding taxes, increased by \$0.1 billion. These increases reflected the continued strength in corporate profits, in line with the strengthening economy.
- Employment insurance premium revenues were up \$1.0 billion. All of this increase reflected timing factors, which will be reversed in the next two months of the calendar year, thereby having no effect on the deficit outcome for 1997-98. In January 1997, there was a change to the base on which premium rates are levied,

from weekly maximum insurable earnings to annual maximum insurable earnings. This change results in an acceleration of premium payments from the latter half of the calendar year to the first half. This change does not affect the amount paid by most employees and employers for the calendar year as a whole. However, those earning above the annual maximum insurable earnings will pay more of their premium liability earlier in the calendar year and less at the end. With the recently announced reduction in employee premium rates, from \$2.90 per \$100 of insurable earnings in 1997 to \$2.70 for 1998, premium revenues for 1997-98 should be lower than those reported in 1996-97.

- Good and services tax collections were up \$0.8 billion, largely attributable to the strength in consumer demand.
- The decline in customs import duties reflected the impact of tariff reductions under multilateral trade agreements. Other excise taxes and duties were up \$0.2 billion, primarily due to higher energy-related taxes.
- Non-tax revenues were down \$1.9 billion. Of the decline, \$1.5 billion was attributable to the inclusion in the 1996-97 results of the proceeds from the sale of the Air Navigation System. Most of the remaining decline was due to lower earnings on investments, reflecting the impact of the decline in interest rates.

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Table 2
Budgetary revenues

	October		April to October		Per cent change
	1996	1997	1996-97	1997-98	
	(millions of dollars)				(%)
Income taxes					
Personal income tax	4,782	5,222	37,225	39,861	7.1
Corporate income tax	1,191	1,334	7,287	9,156	25.6
Other income tax revenue	143	184	1,225	1,375	12.2
Total income tax	6,116	6,740	45,737	50,392	10.2
Employment insurance premium revenues	1,594	1,382	10,981	11,976	9.1
Excise taxes and duties					
Goods and services tax	1,409	1,725	8,832	9,630	9.0
Customs import duties	264	305	1,408	1,367	-2.9
Other excise taxes and duties	721	802	4,677	4,863	4.0
Total excise taxes and duties	2,394	2,832	14,917	15,860	6.3
Total tax revenues	10,104	10,954	71,635	78,228	9.2
Non-tax revenues	1,976	262	5,019	3,092	-38.4
Total budgetary revenues	12,080	11,216	76,654	81,320	6.1

Program spending lower in April to October period

Program spending declined \$2.5 billion, or 4.4 per cent in the first seven months of 1997-98, compared to the same period last year, with all major components except subsidies and other transfers lower. The decline in total program spending was primarily attributable to the effect of the restraint measures introduced in the 1994 and 1995 budgets and, to a lesser extent, to the growth in the economy.

- Major transfers to persons declined \$0.4 billion, solely due to lower employment insurance benefits, as elderly benefits were up. The decline in employment insurance benefits was due to lower average benefits and a decline in the number of beneficiaries, primarily reflecting the impact of reform measures, and a decline in the number of unemployed.
- Major transfers to other levels of government were down \$2.0 billion, reflecting lower cash transfers under the CHST and Equalization. In the February 1995 budget, the government set total entitlements under the CHST for 1997-98 at \$25.1 billion, down \$1.8 billion from 1996-97. These entitlements are paid to the provinces in the form of tax point transfers and cash. The tax point transfer component represents the value of "tax room" which the federal government made available to provinces, allowing the provinces to

increase their tax rates by an equivalent amount, with no impact on the taxpayer. The value of the tax point transfer increases in line with the growth in the applicable tax bases. The cash transfer, therefore, is the difference between the entitlement and an increasing value in the tax point transfer. Being a residual, the cash transfer, which is part of program spending, is affected not only by the change in entitlements, but also by the growth in the value of the tax point transfer. Cash transfers under the CHST were down \$1.7 billion over the first seven months of 1997-98, compared to the same period last year, of which about \$1.1 billion was attributable to the reduction in entitlements with the remainder due to the increase in the value of the tax point transfer. Equalization transfers were down \$0.3 billion. As indicated in the 1997 budget, these transfers are expected to be lower in 1997-98, reflecting lower provincial revenue growth due to tax reductions in some provinces, population shifts between equalization-receiving and non-equalization-receiving provinces, as well as strong resource revenues in some of the equalization-receiving provinces.

- Direct program spending – that is, total program spending less the major transfers to persons and other levels of government – declined by \$0.2 billion. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including

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Table 3

Budgetary expenditures

	October		April to October		Per cent change
	1996	1997	1996-97	1997-98	
	(millions of dollars)				(%)
Transfer payments to:					
Persons					
Elderly benefits	1,811	1,830	12,476	12,844	2.9
Employment insurance benefits	971	761	6,919	6,186	-10.6
Total	2,782	2,591	19,395	19,030	-1.9
Other levels of government					
Canada Health and Social Transfer	1,267	1,026	8,791	7,133	-18.9
Fiscal transfers	767	887	5,659	5,414	-4.7
Alternative Payments for Standing Programs	-167	-178	-1,180	-1,243	5.3
Total	1,867	1,735	13,290	11,304	-14.9
Subsidies and other transfers					
Agriculture	69	102	380	318	-16.3
Foreign Affairs	111	122	792	794	0.3
Human Resources Development	193	168	883	785	-11.1
Indian and Northern Development	245	249	2,253	2,377	5.5
Industry and Regional Development	186	194	759	861	13.4
Veterans Affairs	118	115	794	803	1.1
Other	245	353	1,457	1,910	31.1
Total	1,167	1,303	7,318	7,848	7.2
Total transfers	5,816	5,629	40,003	38,182	-4.6
Payments to Crown corporations					
Canadian Broadcasting Corporation	76	74	580	522	-10.0
Canada Mortgage and Housing Corporation	144	167	1,018	924	-9.2
Other	159	58	725	634	-12.6
Total	379	299	2,323	2,080	-10.5
Operating and capital expenditures					
Defence	755	822	4,878	4,726	-3.1
All other departmental expenditures	1,796	1,779	10,357	10,058	-2.9
Total	2,551	2,601	15,235	14,784	-3.0
Total program expenditures	8,746	8,529	57,561	55,046	-4.4
Public debt charges	3,830	3,633	26,593	25,479	-4.2
Total budgetary expenditures	12,576	12,162	84,154	80,525	-4.3

defence. In contrast to the reduction to entitlements to other levels of government, which took effect in 1996-97, the restraint measures introduced in the 1994 and 1995 budgets resulted in significant reductions beginning in 1995-96. In addition, the restraint measures announced as part of the March 1996 budget Program Review exercise will further reduce spending in this component in 1998-99. In contrast, the reduction in CHST cash transfers, announced in the March 1996 budget for 1998-99, will not proceed. The government

has proposed that cash transfers over the 1997-98 to 2002-03 period will never fall below \$12.5 billion – the level of cash transfers currently estimated for 1997-98. Within direct program spending, other transfer payments were up, primarily reflecting the timing of payments and payments associated with the sale of the Air Navigation System to Nav Canada. Payments to Crown corporations, defence and all other departmental spending were lower. These declines primarily reflected the impact of restraint measures.

Table 4
The deficit and financial requirements/surplus

	October		April to October	
	1996	1997	1996-97	1997-98
(millions of dollars)				
Deficit(-)/surplus(+)	-496	-946	-7,500	795
Loans, investments and advances				
Crown corporations	3	-118	760	271
Other	88	24	-293	-140
Total	91	-94	467	131
Specified purpose accounts				
Canada Pension Plan Account	152	164	971	989
Superannuation accounts	-137	-220	4,146	3,348
Other	50	44	140	-229
Total	65	-12	5,257	4,108
Other transactions	188	1,423	-2,622	-1,520
Total non-budgetary transactions	344	1,317	3,102	2,719
Financial requirements/surplus (excluding foreign exchange transactions)	-152	371	-4,398	3,514
Foreign exchange transactions	-1,457	677	-1,127	3,965
Total financial requirements/surplus	-1,609	1,048	-5,525	7,479

Table 5
Financial requirements/surplus and unmatured debt transactions

	October		April to October	
	1996	1997	1996-97	1997-98
(millions of dollars)				
Total financial requirements/surplus	-1,609	1,048	-5,525	7,479
Unmatured debt transactions				
Payable in Canadian dollars				
Marketable bonds	1,775	-2,775	15,353	7,075
Canada Savings Bonds	-345	-428	-1,822	-2,067
Treasury bills	-2,400	4,600	-16,300	-15,500
Other	-366	-388	-7	-8
Subtotal	-1,336	1,009	-2,776	-10,500
Less: Government's holdings of unmatured debt	63	38	853	794
Total	-1,273	1,047	-1,923	-9,706
Payable in foreign currencies				
Marketable bonds	0	438	0	-278
Notes and loans	0	0	0	0
Canada bills	361	198	0	-1,026
Canada notes	957	-69	1,568	-395
Total	1,318	567	1,568	-1,699
Total unmatured debt transactions	45	1,614	-355	-11,405
Change in cash balance	-1,564	2,662	-5,880	-3,926

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Table 6

Cash, unmatured debt and debt balances: at October 31

	1996	1997
	(millions of dollars)	
Cash balances at end of period		
In Canadian dollars	2,662	5,398
In foreign currencies	2	42
Total cash balance	2,664	5,440
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	268,118	289,638
Treasury bills	149,800	119,900
Canada Savings Bonds	29,606	31,426
Other	3,471	3,460
Subtotal	450,995	444,424
Less: Government's holdings of unmatured debt	181	294
Total	450,814	444,130
Payable in foreign currencies		
Marketable bonds	9,514	12,182
Notes and loans	0	0
Canada bills	6,986	7,421
Canada notes	1,878	1,726
Total	18,378	21,329
Total unmatured debt	469,192	465,459

Public debt charges lower in April to October period

Public debt charges were down \$1.1 billion, or 4.3 per cent, on a year-over-year basis. This decline was attributed to lower average effective interest rates on the federal government's debt, as well as a reduction in net borrowing requirements, reflecting the improvement in the overall budget situation.



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Highlights of financial results for November 1997

Surplus of \$0.6 billion in November 1997

There was a surplus of \$0.6 billion in November 1997, compared to a deficit of \$0.6 billion in November 1996. As a result, on a year-over-year basis, there was a net improvement in the federal government's budgetary position of \$1.2 billion. Budgetary revenues were up \$0.7 billion (6.6 per cent), program spending declined by \$0.3 billion (4.3 per cent), while public debt charge were \$0.1 billion (3.7 per cent) lower.

Within budgetary revenues, personal income tax collections were up \$0.2 billion, primarily reflecting the advances in employment, corporate income tax collections were up \$0.3 billion, primarily reflecting continued strength in corporate profits, while goods and services tax (GST) collections increased \$0.5 billion, reflecting continued strength in consumer demand. In contrast, employment insurance premium revenues were \$0.4 billion lower, reflecting the impact of the change in remittance requirements that came into effect in January 1997.

The decline in program spending reflected lower expenditures related to transfers to other levels of government, subsidies and other transfers, payments to Crown corporations, and operating and capital expenditures. Within transfers to other levels of government, the decline in cash transfers under the Canada Health and Social Transfer (CHST) reflected both the reduction in total entitlements and the rising value of the tax point transfers. Transfers for elderly benefits and employment insurance benefits were higher, the latter reflecting the timing of payments.

The decline in public debt charges was attributable to the impact of lower average effective interest rates.

Surplus for April to November 1997 of \$1.4 billion

Over the first eight months of the 1997-98 fiscal year, there was a surplus of \$1.4 billion, representing an improvement of \$9.5 billion from the deficit of \$8.1 billion reported for the first eight months of 1996-97.

This turnaround was attributable to the increasing strength in the economy on budgetary revenues, the impact of restraint measures introduced in the 1994 and 1995 budgets on program spending, and to a lesser extent, timing factors, notably the acceleration of monthly employment insurance premium revenues within the year. Budgetary revenues were up \$5.4 billion (6.1 per cent), program spending declined \$2.9 billion (4.4 per cent), while public debt charges were \$1.2 billion lower (4.1 per cent).

Financial surplus of \$11.3 billion in April to November period

With a budgetary surplus of \$1.4 billion and a net source of funds from non-budgetary transactions of \$4.4 billion, there was a financial surplus, excluding foreign exchange transactions, of \$5.7 billion, an improvement of \$9.5 billion from the same period in 1996-97. There was also a net source of funds amounting to \$5.6 billion from foreign exchange transactions. In total, therefore, there was a financial surplus of \$11.3 billion, an improvement of \$18.9 billion from the same period last year. Cash balances were slightly lower over the first eight months of 1997-98, compared to the end of the 1996-97 fiscal year. As a result, since the beginning of the 1997-98 fiscal year, there has been a \$11.5 billion retirement of market debt.

Caution should be exercised in extrapolating these monthly results to date to gain an assessment of the possible outcome for the fiscal year as a whole. Some of the improvement to date is due to special factors (for example, the increase in employment insurance premium revenues which will be reversed in future months, thereby having no impact on the outcome for the fiscal year as a whole) or to one-time developments (increase in personal income tax collections due to taxes paid on filing related to the 1996 taxation year) that will not be repeated in future months. In *The Economic and Fiscal Update* released on October 15, 1997, the government indicated that the budget would be balanced no later than 1998-99.



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Table 1
Summary statement of transactions

	November		April to November	
	1996	1997	1996-97	1997-98
(millions of dollars)				
Budgetary transactions				
Revenues	11,002	11,723	87,656	93,043
Program spending	-8,056	-7,711	-65,617	-62,756
Operating surplus	2,946	4,012	22,039	30,287
Public debt charges	-3,564	-3,433	-30,157	-28,912
Deficit/surplus	-618	579	-8,118	1,375
Non-budgetary transactions	1,262	1,642	4,361	4,363
Financial requirements/surplus (excluding foreign exchange transactions)	644	2,221	-3,757	5,738
Foreign exchange transactions	-2,653	1,638	-3,780	5,603
Total financial requirements/surplus	-2,009	3,859	-7,537	11,341
Unmatured debt transactions	3,019	-105	2,665	-11,510

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Budgetary revenues up in April to November period

Over the April to November 1997 period, budgetary revenues were up \$5.4 billion, or 6.1 per cent, compared to the same period a year ago. Of this increase, about \$0.6 billion was attributable to the acceleration of employment insurance premium revenues, with the remainder attributable to the strength in the economy.

- Personal income tax collections were up \$2.9 billion, reflecting higher deductions at source from employment income, in line with the strong gains in employment, as well as higher taxes paid on filing, relating to income growth in the 1996 taxation year.
- Corporate income tax collections were up \$2.2 billion, while other income taxes, primarily non-resident withholding taxes, increased by \$0.1 billion. These increases reflected the continued strength in corporate profits, in line with the strengthening economy.
- Employment insurance premium revenues were up \$0.6 billion. All of this increase reflected the effect of the change in remittance procedures. In January 1997, there was a change to the base on which premium rates are levied, from weekly maximum insurable earnings to annual maximum insurable earnings. This change results in an acceleration of premium payments from the latter half of the calendar year to the first half. This change does not affect the amount paid by most employees and employers for the calendar year as a whole. However, those earning

above the annual maximum insurable earnings will pay more of their premium liability earlier in the calendar year and less at the end. As a result, employment insurance premium revenues should also record a decline in December 1997 on a year-over-year basis. In addition, with the recently announced reduction in employee premium rates from \$2.90 per \$100 of insurable earnings in 1997 to \$2.70 for 1998, premium revenues for 1997-98 should be lower than those reported in 1996-97.

- Good and services tax collections were up \$1.3 billion, largely attributable to the strength in consumer demand.
- The decline in customs import duties reflected the impact of tariff reductions under multilateral trade agreements. Other excise taxes and duties were up \$0.3 billion, primarily due to higher energy-related taxes.
- Non-tax revenues were down \$2.0 billion. Of the decline, \$1.5 billion was attributable to the inclusion in the 1996-97 results of the proceeds from the sale of the Air Navigation System. Most of the remaining decline was due to lower earnings on investments reflecting the impact of the decline in interest rates.

Program spending lower in April to November period

Program spending declined \$2.9 billion, or 4.4 per cent in the first eight months of 1997-98, compared to the same period last year, with all major components,

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Table 2
Budgetary revenues

	November		April to November		Per cent change
	1996	1997	1996-97	1997-98	
	(millions of dollars)				(%)
Income taxes					
Personal income tax	5,341	5,574	42,567	45,435	6.7
Corporate income tax	1,094	1,375	8,381	10,531	25.7
Other income tax revenue	250	202	1,475	1,577	6.9
Total income tax	6,685	7,151	52,423	57,543	9.8
Employment insurance premium revenues	1,571	1,221	12,552	13,196	5.1
Excise taxes and duties					
Goods and services tax	1,415	1,960	10,247	11,590	13.1
Customs import duties	254	269	1,663	1,636	-1.6
Other excise taxes and duties	680	828	5,356	5,690	6.2
Total excise taxes and duties	2,349	3,057	17,266	18,916	9.6
Total tax revenues	10,605	11,429	82,241	89,655	9.0
Non-tax revenues	397	294	5,415	3,388	-37.4
Total budgetary revenues	11,002	11,723	87,656	93,043	6.1

except subsidies and other transfers, lower. The decline in total program spending was primarily attributable to the effect of the restraint measures introduced in the 1994 and 1995 budgets and, to a lesser extent, to the growth in the economy.

- Major transfers to persons declined \$0.3 billion, solely due to lower employment insurance benefits, as elderly benefits were up. The decline in employment insurance benefits was due to lower average benefits and a decline in the number of beneficiaries, primarily reflecting the impact of reform measures, and a decline in the number of unemployed.
- Major transfers to other levels of government were down \$2.1 billion, reflecting lower cash transfers under the CHST and Equalization. In the February 1995 budget, the government set total entitlements under the CHST for 1997-98 at \$25.1 billion, down \$1.8 billion from 1996-97. These entitlements are paid to the provinces in the form of tax point transfers and cash. The tax point transfer component represents the value of "tax room" which the federal government made available to provinces, allowing the provinces to increase their tax rates by an equivalent amount, with no impact on the taxpayer. The value of the tax point transfer increases in line with the growth in the applicable tax bases. The cash transfer, therefore, is the difference between the entitlement and an increasing value in the tax point transfer. Being a residual, the cash transfer, which is

part of program spending, is affected not only by the change in entitlements, but also by the growth in the value of the tax point transfer. Cash transfers under the CHST were down \$1.9 billion over the first eight months of 1997-98, compared to the same period last year, of which about \$1.2 billion was attributable to the reduction in entitlements with the remainder due to the increase in the value of the tax point transfer. Equalization transfers were down \$0.1 billion. As indicated in the 1997 budget, these transfers are expected to be lower in 1997-98, reflecting lower provincial revenue growth due to tax reductions in some provinces, population shifts between equalization-receiving and non-equalization-receiving provinces, as well as strong resource revenues in some of the equalization-receiving provinces.

- Direct program spending – that is, total program spending less the major transfers to persons and other levels of government – declined by \$0.5 billion. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. In contrast to the reduction to entitlements to other levels of government, which took effect in 1996-97, the restraint measures introduced in the 1994 and 1995 budgets resulted in significant reductions beginning in 1995-96. In addition, the restraint measures announced as part of the March 1996 budget Program Review

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Table 3

Budgetary expenditures

	November		April to November		Per cent change
	1996	1997	1996-97	1997-98	
	(millions of dollars)				(%)
Transfer payments to:					
Persons					
Elderly benefits	1,852	1,867	14,328	14,711	2.7
Employment insurance benefits	746	837	7,665	7,023	-8.4
Total	2,598	2,704	21,993	21,734	-1.2
Other levels of government					
Canada Health and Social Transfer	1,267	982	10,058	8,115	-19.3
Fiscal transfers	697	839	6,376	6,253	-1.9
Alternative Payments for Standing Programs	-166	-180	-1,346	-1,423	5.7
Total	1,798	1,641	15,088	12,945	-14.2
Subsidies and other transfers					
Agriculture	81	53	461	371	-19.5
Foreign Affairs	147	111	939	905	-3.6
Human Resources Development	168	98	1,051	883	-16.0
Indian and Northern Development	256	265	2,510	2,642	5.3
Industry and Regional Development	95	125	854	986	15.5
Veterans Affairs	111	112	905	915	1.1
Other	255	188	1,711	2,098	22.6
Total	1,113	952	8,431	8,800	4.4
Total transfers	5,509	5,297	45,512	43,479	-4.5
Payments to Crown corporations					
Canadian Broadcasting Corporation	69	75	649	597	-8.0
Canada Mortgage and Housing Corporation	168	153	1,186	1,077	-9.2
Other	89	88	814	722	-11.3
Total	326	316	2,649	2,396	-9.6
Operating and capital expenditures					
Defence	764	782	5,644	5,508	-2.4
All other departmental expenditures	1,457	1,316	11,812	11,373	-3.7
Total	2,221	2,098	17,456	16,881	-3.3
Total program expenditures	8,056	7,711	65,617	62,756	-4.4
Public debt charges	3,564	3,433	30,157	28,912	-4.1
Total budgetary expenditures	11,620	11,144	95,774	91,668	-4.3

exercise will further reduce spending in this component in 1998-99. In contrast, the reduction in CHST cash transfers, announced in the March 1996 budget for 1998-99, will not proceed. The government has proposed that cash transfers over the 1997-98 to 2002-03 period will never fall below \$12.5 billion – the level of cash transfers currently estimated for 1997-98. Within direct program

spending, other transfer payments were up, primarily reflecting the timing of payments associated with the sale of the Air Navigation System to Nav Canada. Payments to Crown corporations, defence and all other departmental spending were lower. These declines primarily reflected the impact of restraint measures.

Table 4

The deficit/surplus and financial requirements/surplus

	November		April to November	
	1996	1997	1996-97	1997-98
	(millions of dollars)			
Deficit(-)/surplus(+)	-618	579	-8,118	1,375
Loans, investments and advances				
Crown corporations	-64	-92	696	180
Other	-110	-9	-404	-150
Total	-174	-101	292	30
Specified purpose accounts				
Canada Pension Plan Account	-956	-691	15	299
Superannuation accounts	-185	-195	3,961	3,153
Other	15	-9	155	-237
Total	-1,126	-895	4,131	3,215
Other transactions	2,562	2,638	-62	1,118
Total non-budgetary transactions	1,262	1,642	4,361	4,363
Financial requirements/surplus (excluding foreign exchange transactions)	644	2,221	-3,757	5,738
Foreign exchange transactions	-2,653	1,638	-3,780	5,603
Total financial requirements/surplus	-2,009	3,859	-7,537	11,341

Table 5

Financial requirements/surplus and unmatured debt transactions

	November		April to November	
	1996	1997	1996-97	1997-98
	(millions of dollars)			
Total financial requirements/surplus	-2,009	3,859	-7,537	11,341
Unmatured debt transactions				
Payable in Canadian dollars				
Marketable bonds	3,900	3,500	19,253	10,575
Canada Savings Bonds	5,057	109	3,235	-1,958
Treasury bills	-7,800	-3,500	-24,100	-19,000
Other	315	168	308	160
Subtotal	1,472	277	-1,304	-10,223
Less: Government's holdings of unmatured debt	-1,308	-822	-455	-28
Total	164	-545	-1,759	-10,251
Payable in foreign currencies				
Marketable bonds	2,743	42	2,743	-236
Notes and loans	0	0	0	0
Canada bills	-89	342	-88	-684
Canada notes	201	56	1,769	-339
Total	2,855	440	4,424	-1,259
Total unmatured debt transactions	3,019	-105	2,665	-11,510
Change in cash balance	1,010	3,754	-4,872	-169

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Table 6

Cash, unmatured debt and debt balances: at November 30

	1996	1997
	(millions of dollars)	
Cash balances at end of period		
In Canadian dollars	3,659	9,175
In foreign currencies	15	20
Total cash balance	3,674	9,195
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	272,018	293,138
Treasury bills	142,000	116,400
Canada Savings Bonds	34,663	31,535
Other	3,786	3,627
Subtotal	452,467	444,700
Less: Government's holdings of unmatured debt	1,490	1,115
Total	450,977	443,585
Payable in foreign currencies		
Marketable bonds	12,257	12,224
Notes and loans	0	0
Canada bills	6,897	7,752
Canada notes	2,079	1,782
Total	21,233	21,758
Total unmatured debt	472,210	465,343

Public debt charges lower in April to November period

Public debt charges were down \$1.2 billion, or 4.1 per cent, on a year-over-year basis. This decline was attributed to lower average effective interest rates on the federal government's debt, as well as a reduction in net borrowing requirements, reflecting the improvement in the overall budget situation.



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A Publication of the Department of Finance

Highlights of financial results for December 1997

Budgetary surplus of \$3.6 billion recorded in December 1997

A budgetary surplus of \$3.6 billion was recorded in December 1997 – the largest one-month surplus in recorded history. This represents an improvement of \$1.4 billion from the budgetary surplus of \$2.2 billion recorded in December 1996. All of the year-over-year improvement was due to higher revenues, as public debt charges were up slightly and program spending was relatively unchanged.

Budgetary revenues were up \$1.5 billion, or 10.3 per cent. Budgetary revenues are usually higher in December than in any other month of the fiscal year, as the December results include final corporate income tax payments for most financial institutions, quarterly personal income tax installments, and the transfer of Bank of Canada profits. Personal income tax collections were up \$1.1 billion. About half of this increase reflects recoveries from employment insurance premium revenues due to overpayments for taxation year 1996 and a reclassification of collections from non-tax revenues, thereby having no direct impact on the overall increase in budgetary revenues. The remainder was primarily attributable to higher quarterly installment payments. Corporate income tax collections were up \$0.6 billion, reflecting the final settlement payments for those corporations with taxation years ending October 31. Goods and services tax (GST) collections were up \$0.3 billion, while non-tax revenues increased \$0.4 billion, primarily reflecting higher Bank of Canada profits. Employment insurance premium revenues declined \$0.9 billion, reflecting the impact of the change in remittance requirements that came into effect in January 1997 and the transfer to personal income tax collections due to overpayments for taxation year 1996.

Budgetary surplus of \$5.0 billion for April to December 1997 period

Over the first nine months of the 1997-98 fiscal year, there was a budgetary surplus of \$5.0 billion, an improvement of \$10.9 billion from the same period last year. This year-over-year improvement was largely attributable to the increasing strength in the economy and the impact of previous budget measures. Budgetary revenues were up \$6.8 billion (6.7 per cent), program spending declined \$2.9 billion (3.9 per cent), while public debt charges were \$1.2 billion lower (3.4 per cent).

Financial surplus of \$14.8 billion in April to December 1997 period

With a budgetary surplus of \$5.0 billion and a net source of funds from non-budgetary transactions of \$1.9 billion, there was a financial surplus, excluding foreign exchange transactions, of \$6.9 billion, compared to a net requirement of \$2.9 billion over the same period last year. Foreign exchange transactions provided the government with a net source of funds amounting to \$7.8 billion over the April to December 1997 period, compared to a net requirement of \$2.2 billion over the nine months in 1996-97. As a result, there was a total financial surplus of \$14.8 billion to date, compared to a net requirement of \$5.1 billion over the same period last year. There was a net repayment of market debt of \$12.9 billion in the first nine months of 1997-98 and an increase of \$1.9 billion in cash balances.

Balanced budget expected for 1997-98

Based on the financial results to date, coupled with expected developments over the balance of the fiscal year (including the end-of-year accounting period adjustments), and incorporating the measures announced in the 1998 budget, a balanced budget is now expected for 1997-98.



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Table 1

Summary statement of transactions

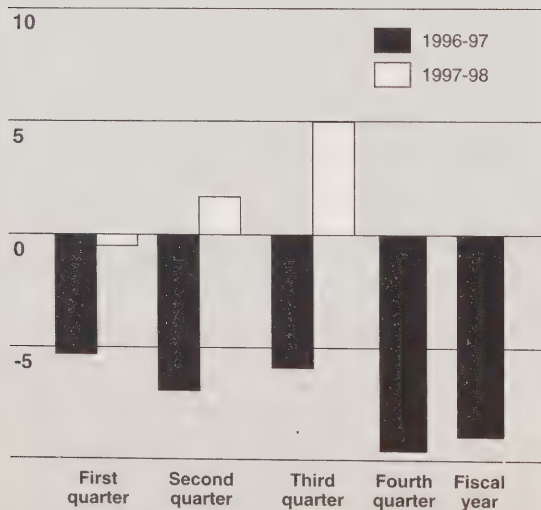
	December		April to December	
	1996	1997	1996-97	1997-98
	(millions of dollars)			
Budgetary transactions				
Revenues	14,173	15,630	101,830	108,673
Program spending	-8,344	-8,309	-73,961	-71,066
Operating surplus	5,829	7,321	27,869	37,607
Public debt charges	-3,638	-3,718	-33,795	-32,630
Deficit/surplus	2,191	3,603	-5,926	4,977
Non-budgetary transactions	-1,369	-2,426	2,994	1,936
Financial requirements/surplus (excluding foreign exchange transactions)	822	1,177	-2,932	6,913
Foreign exchange transactions	1,573	2,238	-2,206	7,840
Total financial requirements/surplus	2,395	3,415	-5,138	14,753
Unmatured debt transactions	-914	-1,348	1,751	-12,855

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

The federal budgetary balance 1996-97 and 1997-98

Year to date

billions of dollars



Budgetary revenues up in April to December period

Over the April to December 1997 period, budgetary revenues were up \$6.8 billion, or 6.7 per cent, on a year-over-year basis. This increase primarily reflects the continuing strength in the economy.

- Personal income tax collections were up \$4.0 billion, or 8.1 per cent. This increase was due to higher taxes paid on filing and quarterly installment payments, relating to the stronger income growth in the 1996 taxation year and to higher deductions at source from employment, in line with the strong gains in employment this year. In addition, there was a net transfer from the Canada Pension Plan and employment insurance accounts, relating to overpayments to these accounts in respect of previous taxation years.
- Corporate income tax collections were up \$2.7 billion, or 27.6 per cent, attributable to an increase in corporate profits, in line with the strengthening economy.

Table 2

Budgetary revenues

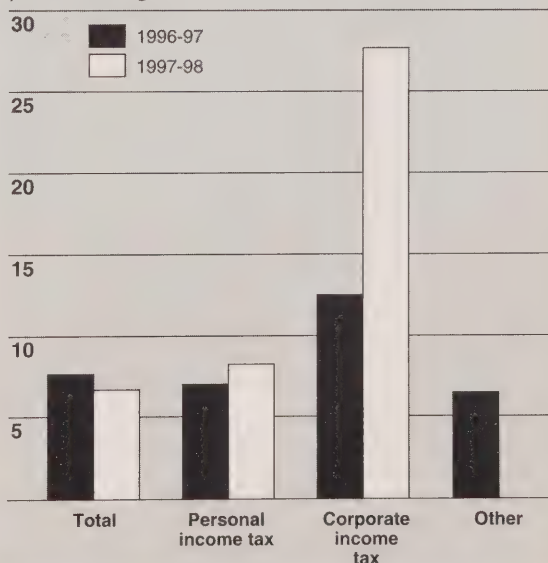
	December		April to December		Per cent change
	1996	1997	1996-97	1997-98	
	(millions of dollars)				(%)
Income taxes					
Personal income tax	7,146	8,281	49,713	53,717	8.1
Corporate income tax	1,478	2,046	9,859	12,577	27.6
Other income tax revenue	253	16	1,728	1,593	-7.8
Total income tax	8,877	10,343	61,300	67,887	10.7
Employment insurance premium revenues	1,554	670	14,105	13,866	-1.7
Excise taxes and duties					
Goods and services tax	2,113	2,387	12,360	13,976	13.1
Customs import duties	211	261	1,874	1,897	1.2
Sales and excise taxes	604	713	5,960	6,402	7.4
Total excise taxes and duties	2,928	3,361	20,194	22,275	10.3
Total tax revenues	13,359	14,374	95,599	104,028	8.8
Non-tax revenues	814	1,256	6,231	4,645	-25.5
Total budgetary revenues	14,173	15,630	101,830	108,673	6.7

- Employment insurance premiums were down \$0.2 billion, or 1.7 per cent. This was largely due to a transfer to personal income tax collections relating to overpayments for the 1996 taxation year.
- Net GST collections were up \$1.6 billion, or 13.1 per cent, consistent with the growth in consumer expenditures subject to this tax.
- Customs import duties were virtually unchanged, as the strong growth in imports witnessed in 1997 offset the impact of tariff reductions. Other excise taxes and duties were up \$0.4 billion, or 7.4 per cent, primarily reflecting higher receipts from energy taxes.
- Non-tax revenues, consisting of return on investments and other non-tax revenues, such as fees and proceeds from sales, among others, were down \$1.6 billion or 25.5 per cent. This decline was primarily attributable to the inclusion in the 1996-97 results of the proceeds (\$1.5 billion) from the sale of the Air Navigation System.

Budgetary revenues 1996-97 and 1997-98

April to December
Year-over-year growth

per cent change



Program spending lower in April to December period

Program spending declined by \$2.9 billion, or 3.9 per cent, in the first nine months of 1997-98, compared to the same period last year. The decline in program spending was primarily attributable to the effect of the restraint measures introduced in the 1994 and 1995 budgets and to the growth in the economy.

- Major transfers to persons declined \$0.1 billion, solely due to lower employment insurance benefits, as elderly benefits were up. The decline in employment insurance benefits was primarily due to lower average benefits and a decline in the number of beneficiaries, primarily reflecting the impact of reform measures, and a decline in the number of unemployed.
- Major transfers to other levels of government were down \$2.3 billion, primarily reflecting lower cash transfers under the Canada Health and Social Transfer (CHST). In the February 1995 budget, the government set total entitlements under the CHST for 1997-98 at \$25.1 billion, down \$1.8 billion from 1996-97. These entitlements are paid to the provinces in the form of tax point transfers and cash. The tax point transfer component represents the value of "tax room" which the federal government made available to provinces, allowing the provinces to increase their tax rates by an equivalent amount, with no impact on the taxpayer. The value of the tax point transfer increases in line with the growth in the applicable tax bases. The cash transfer, therefore, is the difference between the entitlement and an increasing value in the tax point transfer. Being a residual, the cash transfer, which is part of program spending, is affected not only by the change in entitlements, but also by the growth in the value of the tax point transfer. Cash transfers under the CHST were down \$2.2 billion over the first nine months of 1997-98, compared to the same period last year, of which about \$1.3 billion was attributable to the reduction in entitlements with the remainder due to the increase in the value of the tax point transfer. Adjustments related to 1995-96 will result in an additional \$236 million cash payment to provinces in March 1998. These amounts are in addition to \$143 million that the government added to these transfer payments when it decided in December 1997 to apply the \$12.5 billion cash guarantee one year earlier than previously announced.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, declined by \$0.4 billion.

This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. In contrast to the reduction to entitlements to other levels of government, which took effect in 1996-97, the restraint measures introduced in the 1994 and 1995 budgets resulted in significant reductions beginning in 1995-96. In addition, the restraint measures announced as part of the March 1996 budget Program Review exercise will further reduce spending in this component in 1998-99. Within direct program spending, other transfer payments were up, solely due to payments associated with the sale of the Air Navigation System to Nav Canada, while expenditures relating to Crown corporations, defence and all other departmental spending were lower. These declines primarily reflected the impact of restraint measures.

Public debt charges lower in April to December period

Public debt charges were down \$1.2 billion, or 3.4 per cent, on a year-over-year basis. This decline was attributed to lower average effective interest rates on the federal government's debt, as well as a reduction in net borrowing requirements, reflecting the improvement in the overall budget situation.

Budgetary expenditures 1996-97 and 1997-98

April to December
Year-over-year growth

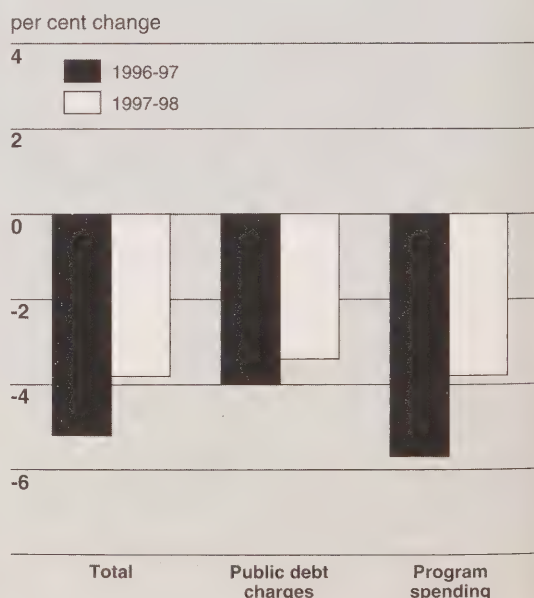


Table 3

Budgetary expenditures

	December		April to December		Per cent change
	1996	1997	1996-97	1997-98	
	(millions of dollars)				(%)
Transfer payments to:					
Persons					
Elderly benefits	1,809	1,863	16,136	16,575	2.7
Employment insurance benefits	932	1,024	8,597	8,047	-6.4
Total	2,741	2,887	24,733	24,622	-0.4
Other levels of government					
Canada Health and Social Transfer	1,267	1,047	11,325	9,163	-19.1
Fiscal transfers	713	738	7,089	6,991	-1.4
Alternative Payments for Standing Programs	-166	-180	-1,513	-1,603	5.9
Total	1,814	1,605	16,901	14,551	-13.9
Subsidies and other transfers					
Agriculture	100	35	561	406	-27.6
Foreign Affairs	177	148	1,116	1,053	-5.6
Human Resources Development	130	122	1,181	1,005	-14.9
Indian and Northern Development	290	299	2,799	2,940	5.0
Industry and Regional Development	257	263	1,111	1,249	12.4
Veterans Affairs	112	108	1,017	1,024	0.7
Other	298	324	2,009	2,422	20.6
Total	1,364	1,299	9,794	10,099	3.1
Total transfers	5,919	5,791	51,428	49,272	-4.2
Payments to Crown corporations					
Canadian Broadcasting Corporation	58	75	707	672	-5.0
Canada Mortgage and Housing Corporation	173	225	1,358	1,303	-4.1
Other	134	108	949	830	-12.5
Total	365	408	3,014	2,805	-6.9
Operating and capital expenditures					
Defence	810	734	6,453	6,242	-3.3
All other departmental expenditures	1,250	1,376	13,066	12,747	-2.4
Total	2,060	2,110	19,519	18,989	-2.7
Total program expenditures	8,344	8,309	73,961	71,066	-3.9
Public debt charges	3,638	3,718	33,795	32,630	-3.4
Total budgetary expenditures	11,982	12,027	107,756	103,696	-3.8

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Table 4

The deficit/surplus and financial requirements/surplus

	December		April to December	
	1996	1997	1996-97	1997-98
(millions of dollars)				
Deficit/surplus	2,191	3,603	-5,926	4,977
Loans, investments and advances				
Crown corporations	176	460	872	640
Other	-7	-242	-411	-393
Total	169	218	461	247
Specified purpose accounts				
Canada Pension Plan Account	-428	-502	-413	-203
Superannuation accounts	2,635	2,728	6,596	5,881
Other	49	-6	205	-243
Total	2,256	2,220	6,388	5,435
Other transactions	-3,794	-4,864	-3,855	-3,746
Total non-budgetary transactions	-1,369	-2,426	2,994	1,936
Financial requirements/surplus (excluding foreign exchange transactions)	822	1,177	-2,932	6,913
Foreign exchange transactions	1,573	2,238	-2,206	7,840
Total financial requirements/surplus	2,395	3,415	-5,138	14,753

Table 5

Financial requirements/surplus and unmatured debt transactions

	December		April to December	
	1996	1997	1996-97	1997-98
(millions of dollars)				
Total financial requirements/surplus	2,395	3,415	-5,138	14,753
Unmatured debt transactions				
Payable in Canadian dollars				
Marketable bonds	6,106	6,313	25,360	16,888
Canada Savings Bonds	-273	-248	2,962	-2,205
Treasury bills	-6,800	-7,600	-30,900	-26,600
Other	-1	-1	307	159
Subtotal	-968	-1,536	-2,271	-11,758
Less: Government's holding of unmatured debt	113	-24	-343	-52
Total	-855	-1,560	-2,614	-11,810
Payable in foreign currencies				
Marketable bonds	0	109	2,743	-126
Notes and loans	0	0	0	0
Canada bills	-59	117	-147	-566
Canada notes	0	-14	1,769	-353
Total	-59	212	4,365	-1,045
Total unmatured debt transactions	-914	-1,348	1,751	-12,855
Change in cash balance	1,481	2,067	-3,387	1,898

Table 6

Cash, unmatured debt and debt balances: at December 31

	1996	1997
	(millions of dollars)	
Cash balances at end of period		
In Canadian dollars	5,151	11,259
In foreign currencies	4	3
Total cash balance	5,155	11,262
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	278,125	299,451
Treasury bills	135,200	108,800
Canada Savings Bonds	34,390	31,287
Other	3,785	3,627
Subtotal	451,500	443,165
Less: Government's holdings of unmatured debt	1,376	1,140
Total	450,124	442,025
Payable in foreign currencies		
Marketable bonds	12,257	12,334
Notes and loans	0	0
Canada bills	6,839	7,870
Canada notes	2,079	1,768
Total	21,175	21,972
Total unmatured debt	471,299	463,997

Financial surplus in April to December period

Financial requirements/surplus measure the difference between cash coming in to the government and cash going out. A financial surplus is usually higher than the budgetary surplus, as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. In addition, the budgetary surplus is largely presented on the accrual basis of accounting. The conversion from accrual to cash is also reflected in non-budgetary transactions. Non-budgetary transactions usually provide the government with a net source of funds.

Non-budgetary transactions provided the government with a net source of funds, over the April to December 1997 period, amounting to \$1.9 billion, compared to a net source of \$3.0 billion in the same period last year.

The lower source was attributable to the transfer of applicable pension assets to Nav Canada and the special one-time payment to the Canada Foundation for Innovation.

With a budgetary surplus of \$5.0 billion and a net source of funds from non-budgetary transactions of \$1.9 billion, there was a financial surplus, excluding foreign exchange transactions, of \$6.9 billion in the first nine months of 1997-98. In the same period last year, there was a net requirement of \$2.9 billion.

The purpose of the Exchange Fund Account is to promote order and stability of the Canadian dollar in the foreign exchange market. It fulfills this function by buying foreign exchange (selling Canadian currency) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure. Foreign exchange transactions resulted in a net source of \$7.8 billion in the first nine months of 1997-98, compared to a requirement of \$2.2 billion in the same period last year.

As a result, there was a financial surplus, including foreign exchange transactions, of \$14.8 billion in the April to December 1997 period. In the same period last year, there was a net requirement of \$5.1 billion.

In the first nine months of 1997-98, the federal government retired \$12.9 billion of its market debt. The structure of the government's debt has also changed significantly, in order to further reduce the exposure to unexpected changes in interest rates. The share of debt held in short-term floating rate instruments, primarily Treasury bills, has been reduced, while the share held in longer-term rate instruments has increased.

The Debt Servicing and Reduction Account

In June 1991, legislation to establish the Debt Servicing and Reduction Account received Royal Assent. As a result, effective April 1, 1991, all goods and services tax revenues net of the applicable input tax credits, rebates and the low-income credit, along with the net proceeds from the sale of Crown corporations and gifts to the Crown identified for debt reduction must, by law, go directly to the Debt Servicing and Reduction Account. The funds in this Account can only be used to pay the cost of servicing the public debt and ultimately to reduce the debt. The Account is audited on an annual basis by the Auditor General of Canada.

Table 7

Debt Servicing and Reduction Account (DSRA)

	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
	(millions of dollars)					
Gross GST collected	29,564	30,516	32,652	36,715	38,048	40,733
Less:						
Refunds and rebates	11,330	12,138	14,271	17,112	18,874	19,782
Quarterly low-income tax credit	2,262	2,503	2,685	2,816	2,799	2,872
Net GST	15,168	14,868	15,696	16,787	16,374	18,079
GST penalties and interest received	19	71	90	129	135	159
Gains from wind-up of interest in Crown corporations/disposal of shares in Crown corporations	2	110			325	
Gifts to the Crown	0.4	0.1	0.2	0.5	0.3	0.3
Proceeds to the DSRA	15,190	15,050	15,786	16,916	16,835	18,238

Source: *Public Accounts of Canada - 1997*

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February 1998



The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for January 1998

Budgetary deficit of \$1.7 billion in January 1998

There was a budgetary deficit of \$1.7 billion in January 1998, compared to a deficit of \$1.4 billion in January 1997. About one-third of the deficit in January 1998 was attributable to delays in the receipt of tax revenues, due to the ice storm in eastern Canada and the fact that the remittance day for monthly goods and services tax (GST) filers – January 31 – fell on a Saturday. These revenues will be included in the February 1998 results. On a year-over-year basis, budgetary revenues were down \$0.6 billion (5.6 per cent) in January 1998. Program spending declined by \$0.5 billion (5.9 per cent), primarily reflecting the ongoing impacts of the restraint measures and a growing economy. Public debt charges were up \$0.2 billion (4.5 per cent), reflecting accrual adjustments relating to previous months.

The year-over-year decline in budgetary revenues was attributable to lower employment insurance premium revenues (down \$0.6 billion) and GST receipts (down \$0.5 billion). The decline in employment insurance premium revenues was attributable to a number of factors: 1) the impact of the change in remittance requirements; 2) the reduction in premium rates from \$2.90 per \$100 of insurable earnings (for employees) to \$2.70; and 3) transfer to personal income tax collections due to overpayments for taxation year 1996. Timing considerations account for the decline in GST receipts. In contrast, corporate income tax collections were up 14.2 per cent, while personal income tax collections were 3.3 per cent higher.

The decline in program spending reflected lower expenditures related to employment insurance benefits, transfers to other levels of government, subsidies and other transfers, and payments to Crown corporations. Within transfers to other levels of government, the decline in cash transfers under the Canada Health and Social Transfer (CHST) reflected both the reduction in total entitlements and the rising value of the tax point transfers.

Surplus for April 1997 to January 1998 of \$3.3 billion

Over the first 10 months of the 1997-98 fiscal year, there was a surplus of \$3.3 billion, representing an improvement of \$10.7 billion from the deficit of \$7.3 billion reported for the first 10 months of 1996-97. This turnaround was attributable to the impact of the increasing strength in the economy on budgetary revenues and the impact of restraint measures introduced in the 1994 and 1995 budgets on program spending. Budgetary revenues were up \$6.2 billion (5.5 per cent), program spending declined \$3.4 billion (4.1 per cent), while public debt charges were \$1.0 billion lower (2.7 per cent).

Financial surplus of \$14.3 billion in April 1997 to January 1998 period

With a budgetary surplus of \$3.3 billion and a net source of funds from non-budgetary transactions of \$5.1 billion, there was a financial surplus, excluding foreign exchange transactions, of \$8.4 billion, an improvement of \$10.2 billion from the same period in 1996-97. There was also a net source of funds amounting to \$6.0 billion from foreign exchange transactions. In total, therefore, there was a financial surplus of \$14.3 billion, an improvement of \$21.1 billion from the same period last year. Cash balances were slightly lower over the first 10 months of 1997-98, compared to the end of the 1996-97 fiscal year. As a result, since the beginning of the 1997-98 fiscal year, there has been a \$14.8 billion retirement of market debt.

Balanced budget for 1997-98

Based on the financial results for the first 10 months of 1997-98, coupled with expected developments over the balance of the fiscal year, and incorporating the impact of the measures announced in the budget, the budget will be balanced in 1997-98.



Department of Finance
Canada

Ministère des Finances
Canada



Canada

The Fiscal Monitor

Table 1

Summary statement of transactions

	January		April to January	
	1997	1998	1996-97	1997-98
	(millions of dollars)			
Budgetary transactions				
Revenues	11,153	10,532	112,983	119,205
Program spending	-8,982	-8,448	-82,943	-79,513
Operating surplus	2,171	2,084	30,040	39,692
Public debt charges	-3,586	-3,746	-37,381	-36,376
Deficit/surplus	-1,415	-1,662	-7,341	3,316
Non-budgetary transactions	2,555	3,116	5,549	5,052
Financial requirements/surplus (excluding foreign exchange transactions)	1,140	1,454	-1,792	8,368
Foreign exchange transactions	-2,788	-1,868	-4,994	5,972
Total financial requirements/surplus	-1,648	-414	-6,786	14,340
Unmatured debt transactions	-1,431	-1,658	319	-14,513

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Budgetary revenues up in April 1997 to January 1998 period

Over the April 1997 to January 1998 period, budgetary revenues were up \$6.2 billion, or 5.5 per cent, compared to the same period a year ago. All of this increase is attributable to the strength in the economy, as timing factors in January 1998 served to depress revenues in that month.

- Personal income tax collections were up \$4.2 billion. This increase was due to higher deductions at source from employment income, in line with the strong gains in employment, as well as higher taxes paid on filing, relating to income growth in the 1996 taxation year.
- Corporate income tax collections were up \$2.9 billion, reflecting the continued strength in corporate profits, in line with the strengthening economy.
- Employment insurance premium revenues were down \$1.2 billion. This decline reflects a number of factors including the change in remittance procedures. In January 1997, there was a change to the base on which premium rates are levied, from weekly maximum insurable earnings to annual maximum insurable earnings. This change results in

an acceleration of premium payments from the latter half of the calendar year to the first half. This change does not affect the amount paid by most employees and employers for the calendar year as a whole. However, those earning above the annual maximum insurable earnings will pay more of their premium liability earlier in the calendar year and less at the end. As a result, employment insurance premium revenues were significantly lower in the second half of 1997, thereby adversely affecting fiscal year 1997-98 results to date. The January 1998 results were also adversely affected by this change as about half of the revenues in the month related to December 1997 collections. Premium rates were reduced effective January 1998, with the employee rate falling from \$2.90 per \$100 of insurable earnings in 1997 to \$2.70. Finally, there were net transfers of about \$0.6 billion during the first 10 months of 1997-98 to personal income tax collections relating to overpayments for the 1996 taxation year.

- Good and services tax collections were up \$1.2 billion, largely attributable to the strength in consumer demand. However, collections in January 1998 were depressed due to timing factors associated with the ice storm in eastern Canada and the fact the monthly remittance date (January 31)

Table 2
Budgetary revenues

	January		April to January		Per cent change
	1997	1998	1996-97	1997-98	
	(millions of dollars)				(%)
Income taxes					
Personal income tax	5,257	5,432	54,970	59,149	7.6
Corporate income tax	1,334	1,523	11,193	14,100	26.0
Other income tax revenue	301	400	2,029	1,993	-1.8
Total income tax	6,892	7,355	68,192	75,242	10.3
Employment insurance premium revenues	2,038	1,433	16,143	15,298	-5.2
Excise taxes and duties					
Goods and services tax	924	465	13,284	14,441	8.7
Customs import duties	221	205	2,095	2,102	0.3
Sales and excise taxes	795	705	6,757	7,107	5.2
Total excise taxes and duties	1,940	1,375	22,136	23,650	6.8
Total tax revenues	10,870	10,163	106,471	114,190	7.2
Non-tax revenues	283	369	6,512	5,015	-23.0
Total budgetary revenues	11,153	10,532	112,983	119,205	5.5

for the receipt of collections fell on a Saturday. As a result, a large part of the January collections were received in February and will be included in that month's results.

- Customs import duties were relatively unchanged, as the strong growth in imports witnessed in 1997 offset the impact of the tariff reductions. Other excise taxes and duties were up \$0.4 billion, primarily due to higher energy-related taxes.
- Non-tax revenues were down \$1.5 billion. All of this decline was attributable to the inclusion in the 1996-97 results of the proceeds from the sale of the Air Navigation System.

Program spending lower in April 1997 to January 1998 period

Program spending declined \$3.4 billion, or 4.1 per cent in the first 10 months of 1997-98, compared to the same period last year, with all major components, except subsidies and other transfers, lower. The decline in total program spending was primarily attributable to the effect of the restraint measures introduced in the 1994 and 1995 budgets, and to a lesser extent to the growth in the economy.

- Major transfers to persons declined \$0.3 billion, solely due to lower employment insurance benefits, as elderly benefits were up. The decline in employment insurance benefits was due to lower average benefits and a decline in the number of beneficiaries, primarily reflecting the impact of reform measures, and a decline in the number of unemployed.
- Major transfers to other levels of government were down \$2.6 billion, primarily reflecting lower cash transfers under the CHST. In the February 1995 budget, the government set total entitlements under the CHST for 1997-98 at \$25.1 billion, down \$1.8 billion from 1996-97. These entitlements are paid to the provinces in the form of tax point transfers and cash. The tax point transfer component represents the value of "tax room" which the federal government made available to the provinces, allowing them to increase their tax rates by an equivalent amount, with no impact on the taxpayer. The value of the tax point transfer increases in line with the growth in the applicable tax bases. The cash transfer, therefore, is the difference between the entitlement and an increasing value in the tax point transfer. Being a residual, the cash transfer,

Table 6

Cash, unmatured debt and debt balances: at January 31

	1997	1998
	(millions of dollars)	
Cash balances at end of period		
In Canadian dollars	2,042	9,137
In foreign currencies	34	53
Total cash balance	2,076	9,190
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	280,825	299,451
Treasury bills	131,150	107,400
Canada Savings Bonds	34,168	30,923
Other	3,785	3,627
Subtotal	449,928	441,401
Less: Government's holdings of unmatured debt	1,212	1,038
Total	448,716	440,363
Payable in foreign currencies		
Marketable bonds	12,257	12,333
Notes and loans	0	0
Canada bills	6,795	7,874
Canada notes	2,099	1,768
Total	21,151	21,975
Total unmatured debt	469,867	462,338

other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. In contrast to the reduction to entitlements to other levels of government, which took effect in 1996-97, the restraint measures introduced in the 1994 and 1995 budgets resulted in significant reductions beginning in 1995-96. In addition, the restraint measures announced as part of the March 1996 budget Program Review exercise will further reduce this component's spending in 1998-99. Within direct program spending, other transfer payments were up, primarily reflecting the timing of payments associated with the sale of the Air Navigation

System to Nav Canada. Payments to Crown corporations, defence and all other departmental spending were lower. These declines primarily reflected the impact of restraint measures.

Public debt charges lower in April 1997 to January 1998 period

Public debt charges were down \$1.0 billion, or 2.7 per cent, on a year-over-year basis. This decline was attributable to lower average effective interest rates on the federal government's debt, as well as a reduction in net borrowing requirements, reflecting the improvement in the overall budget situation.

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March 1998



The Fiscal Monitor

Table 3

Budgetary expenditures

	January		April to January		Per cent change
	1997	1998	1996-97	1997-98	
	(millions of dollars)				(%)
Transfer payments to:					
Persons					
Elderly benefits	1,798	1,863	17,935	18,437	2.8
Employment insurance benefits	1,446	1,178	10,042	9,225	-8.1
Total	3,244	3,041	27,977	27,662	-1.1
Other levels of government					
Canada Health and Social Transfer	1,267	1,006	12,592	10,168	-19.3
Fiscal transfers	717	745	7,806	7,736	-0.9
Alternative Payments for Standing Programs	-166	-180	-1,679	-1,784	6.3
Total	1,818	1,571	18,719	16,120	-13.9
Subsidies and other transfers					
Agriculture	117	136	673	543	-19.3
Foreign Affairs	224	206	1,340	1,259	-6.0
Human Resources Development	201	124	1,382	1,129	-18.3
Indian and Northern Development	237	233	3,037	3,174	4.5
Industry and Regional Development	126	91	1,237	1,340	8.3
Veterans Affairs	119	116	1,136	1,139	0.3
Other	326	379	2,340	2,800	19.7
Total	1,350	1,285	11,145	11,384	2.1
Total transfers	6,412	5,897	57,841	55,166	-4.6
Payments to Crown corporations					
Canadian Broadcasting Corporation	90	74	797	746	-6.4
Canada Mortgage and Housing Corporation	224	100	1,582	1,403	-11.3
Other	67	73	1,016	903	-11.1
Total	381	247	3,395	3,052	-10.1
Operating and capital expenditures					
Defence	789	758	7,242	7,000	-3.3
All other departmental expenditures	1,400	1,546	14,465	14,295	-1.2
Total	2,189	2,304	21,707	21,295	-1.9
Total program expenditures	8,982	8,448	82,943	79,513	-4.1
Public debt charges	3,586	3,746	37,381	36,376	-2.7
Total budgetary expenditures	12,568	12,194	120,324	115,889	-3.7

which is part of program spending, is affected not only by the change in entitlements, but also by the growth in the value of the tax point transfer. Cash transfers under the CHST were down \$2.4 billion over the first 10 months of 1997-98, compared to the same period last year, of which about \$1.5 billion was attributable to the reduction in entitlements with the remainder due to the increase in the value of the tax point transfer.

Legislation has been introduced to apply the \$12.5 billion cash guarantee one year earlier than previously announced, which will result in an additional \$0.2 billion being paid in 1997-98.

- Direct program spending – that is, total program spending less the major transfers to persons and other levels of government – declined by \$0.5 billion. This component includes subsidy and

Table 4

The deficit and financial requirements/surplus

	January		April to January	
	1997	1998	1996-97	1997-98
	(millions of dollars)			
Deficit(-)/surplus(+)	-1,415	-1,662	-7,341	3,316
Loans, investments and advances				
Crown corporations	-16	239	855	879
Other	16	112	-394	-281
Total	0	351	461	598
Specified purpose accounts				
Canada Pension Plan Account	-445	-184	-858	-387
Superannuation accounts	-183	-194	6,413	5,687
Other	93	12	298	-232
Total	-535	-366	5,853	5,068
Other transactions	3,090	3,131	-765	-614
Total non-budgetary transactions	2,555	3,116	5,549	5,052
Financial requirements/surplus (excluding foreign exchange transactions)	1,140	1,454	-1,792	8,368
Foreign exchange transactions	-2,788	-1,868	-4,994	5,972
Total financial requirements/surplus	-1,648	-414	-6,786	14,340

Table 5

Financial requirements/surplus and unmatured debt transactions

	January		April to January	
	1997	1998	1996-97	1997-98
	(millions of dollars)			
Total financial requirements/surplus	-1,648	-414	-6,786	14,340
Unmatured debt transactions				
Payable in Canadian dollars				
Marketable bonds	2,700	0	28,060	16,888
Canada Savings Bonds	-222	-364	2,740	-2,569
Treasury bills	-4,050	-1,400	-34,950	-28,000
Other	0	0	307	159
Subtotal	-1,572	-1,764	-3,843	-13,522
Less: Government's holdings of unmatured debt	165	101	-178	50
Total	-1,407	-1,663	-4,021	-13,472
Payable in foreign currencies				
Marketable bonds	0	0	2,743	-126
Notes and loans	0	0	0	0
Canada bills	-44	5	-192	-562
Canada notes	20	0	1,789	-353
Total	-24	5	4,340	-1,041
Total unmatured debt transactions	-1,431	-1,658	319	-14,513
Change in cash balance	-3,079	-2,072	-6,467	-173

The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for February 1998

Budgetary surplus of \$0.8 billion in February 1998

There was a budgetary surplus of \$0.8 billion in February 1998, compared to a deficit of \$0.5 billion in February 1997. Budgetary revenues were up \$0.9 billion, or 7.9 per cent, while program spending declined \$0.4 billion, or 4.3 per cent. In contrast, public debt charges were marginally higher.

The year-over-year increase in budgetary revenues was largely attributable to higher personal income tax collections, up \$0.9 billion, reflecting strong growth in employment income. Corporate income tax collections were up \$0.1 billion, while goods and services tax (GST) collections rose by \$0.3 billion. Part of the increase in GST collections was attributable to the receipt of January 1998 collections, which were delayed by the ice storm in eastern Canada. In contrast, employment insurance premium revenues were lower (down \$0.1 billion), primarily reflecting the reduction in premium rates from \$2.90 per \$100 of insurable earnings (for employees) in 1997 to \$2.70 in 1998.

The decline in program spending reflected lower expenditures on each of: transfers to other levels of government, subsidies and other transfers, payments to Crown corporations, and operating and capital expenditures. In contrast, transfer payments to persons were higher. Within transfers to other levels of government, the decline in cash transfers under the Canada Health and Social Transfer (CHST) reflected both the reduction in total entitlements and the rising value of the tax point transfers.

Surplus for April 1997 to February 1998 of \$4.1 billion

Over the April 1997 to February 1998 period, there was a surplus of \$4.1 billion, representing an improvement of \$11.9 billion from the deficit of

\$7.8 billion reported for the same period in 1996-97. This turnaround was attributable to the impact of the increasing strength in the economy on budgetary revenues and the impact on program spending of restraint measures introduced in the 1994 and 1995 budgets. Budgetary revenues were up \$7.2 billion (5.7 per cent) and program spending declined \$3.8 billion (4.1 per cent), while public debt charges were \$1.0 billion lower (2.4 per cent).

Financial surplus of \$12.4 billion in April 1997 to February 1998 period

With a budgetary surplus of \$4.1 billion and a net source of funds from non-budgetary transactions of \$7.2 billion, there was a financial surplus, excluding foreign exchange transactions, of \$11.3 billion, an improvement of \$10.4 billion from the same period in 1996-97. There was also a net source of funds amounting to \$1.0 billion from foreign exchange transactions. In total, therefore, there was a financial surplus of \$12.4 billion, an improvement of \$16.8 billion from the same period last year. Cash balances were up slightly over the 11 months of 1997-98, compared to the end of the 1996-97 fiscal year. As a result, since the beginning of the 1997-98 fiscal year, there has been a \$12.1 billion retirement of market debt. This is somewhat lower than that recorded in the first 10 months, as the government increased its foreign exchange reserve holdings in February 1998.

Balanced budget for 1997-98

Based on the financial results to date, coupled with expected developments over the balance of the fiscal year, and incorporating the impact of the measures announced in the 1998 budget, a balanced budget will be recorded in 1997-98.



The Fiscal Monitor

Table 1

Summary statement of transactions

	February		April to February	
	1997	1998	1996-97	1997-98
	(millions of dollars)			
Budgetary transactions				
Revenues	11,906	12,844	124,889	132,049
Program spending	-8,820	-8,445	-91,764	-87,958
Operating surplus	3,086	4,399	33,125	44,091
Public debt charges	-3,571	-3,611	-40,952	-39,987
Deficit/surplus	-485	788	-7,827	4,104
Non-budgetary transactions	3,252	2,163	8,800	7,219
Financial requirements/surplus (excluding foreign exchange transactions)	2,767	2,951	973	11,323
Foreign exchange transactions	-472	-4,941	-5,466	1,031
Total financial requirements/surplus	2,295	-1,990	-4,493	12,354
Unmatured debt transactions	496	2,455	815	-12,057

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Budgetary revenues up in April 1997 to February 1998 period

Over the April 1997 to February 1998 period, budgetary revenues were up \$7.2 billion, or 5.7 per cent, compared to the same period a year ago. All of this increase is attributable to the strength in the economy.

- Personal income tax collections were up \$5.0 billion. This increase was due to higher deductions at source from employment income, in line with the strong gains in employment, as well as higher taxes paid on filing, relating to income growth in the 1996 taxation year. In addition, there have been transfers from employment insurance premium revenues to personal income tax collections for prior-year adjustments.
- Corporate income tax collections were up \$3.0 billion, reflecting the continued strength in corporate profits, in line with the strengthening economy.
- Employment insurance premium revenues were down \$1.0 billion. This decline was attributable to net transfers of about \$0.6 billion during 1997-98 to personal income tax collections relating to overpayments for the 1996 taxation year.

In addition, premium rates were reduced effective January 1998, with the employee rate falling from \$2.90 per \$100 of insurable earnings in 1997 to \$2.70.

- Goods and services tax collections were up \$1.4 billion, largely attributable to the strength in consumer demand.
- Customs import duties were relatively unchanged, as the strong growth in imports witnessed in 1997 offset the impact of tariff reductions. Other excise taxes and duties were up \$0.3 billion.
- Non-tax revenues were down \$1.7 billion. Most of this decline was attributable to the inclusion in the 1996-97 results of the proceeds from the sale of the Air Navigation System.

Program spending lower in April 1997 to February 1998 period

Program spending declined \$3.8 billion, or 4.1 per cent, in the first 11 months of 1997-98, compared to the same period last year, with all major components, with the exception of subsidies and other transfers, lower. The decline in total program spending was primarily attributable to the effect of the restraint measures introduced in the 1994 and 1995 budgets and, to a lesser extent, to the growth in the economy.

The Fiscal Monitor

Table 2

Budgetary revenues

	February		April to February		Per cent change
	1997	1998	1996-97	1997-98	
	(millions of dollars)				(%)
Income taxes					
Personal income tax	5,257	6,114	60,226	65,263	8.4
Corporate income tax	1,778	1,912	12,971	16,012	23.4
Other income tax revenue	246	220	2,275	2,214	-2.7
Total income tax	7,281	8,246	75,472	83,489	10.6
Employment insurance premium revenues	1,791	1,678	17,934	16,976	-5.3
Excise taxes and duties					
Goods and services tax	1,609	1,882	14,893	16,324	9.6
Customs import duties	204	202	2,299	2,304	0.2
Sales and excise taxes	676	645	7,432	7,752	4.3
Total excise taxes and duties	2,489	2,729	24,624	26,380	7.1
Total tax revenues	11,561	12,653	118,030	126,845	7.5
Non-tax revenues	345	191	6,859	5,204	-24.1
Total budgetary revenues	11,906	12,844	124,889	132,049	5.7

- Major transfers to persons declined \$0.2 billion, solely due to lower employment insurance benefits, as elderly benefits were up. The decline in employment insurance benefits was due to lower average benefits and a decline in the number of beneficiaries, primarily reflecting the impact of reform measures, and a decline in the number of unemployed.

- Major transfers to other levels of government were down \$3.0 billion, primarily reflecting lower cash transfers under the Canada Health and Social Transfer. In the February 1995 budget, the government set total entitlements under the CHST for 1997-98 at \$25.1 billion, down \$1.8 billion from 1996-97. These entitlements are paid to the provinces in the form of tax point transfers and cash. The tax point transfer component represents the value of "tax room" which the federal government made available to provinces, allowing the provinces to increase their tax rates by an equivalent amount, with no impact on the taxpayer. The value of the tax point transfer increases in line with the growth in the applicable tax bases. The cash transfer, therefore, is the difference between the entitlement and an increasing value in the tax point transfer. Being a residual, the cash transfer,

which is part of program spending, is affected not only by the change in entitlements, but also by the growth in the value of the tax point transfer. Cash transfers under the CHST were down \$2.7 billion over the 11 months of 1997-98, compared to the same period last year, of which about \$1.7 billion was attributable to the reduction in entitlements with the remainder due to the increase in the value of the tax point transfer and recoveries related to overpayments in previous fiscal years. Legislation has been introduced to apply the \$12.5 billion cash guarantee one year earlier than previously announced, which will result in an additional \$0.2 billion being paid in 1997-98.

- Direct program spending – that is, total program spending less the major transfers to persons and other levels of government – declined by \$0.7 billion. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. In contrast to the reduction to entitlements to other levels of government, which took effect in 1996-97, the restraint measures introduced in the 1994 and 1995 budgets resulted in significant reductions

The Fiscal Monitor

Table 6

Cash, unmatured debt and debt balances: at February 28

	1997	1998
	(millions of dollars)	
Cash balances at end of period		
In Canadian dollars	4,862	9,647
In foreign currencies	5	8
Total cash balance	4,867	9,655
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	284,425	296,351
Treasury bills	128,400	109,200
Canada Savings Bonds	33,763	30,738
Other	3,469	3,458
Subtotal	450,057	439,747
Less: Government's holdings of unmatured debt	1,076	943
Total	448,981	438,804
Payable in foreign currencies		
Marketable bonds	12,257	15,240
Notes and loans	0	0
Canada bills	7,026	8,984
Canada notes	2,099	1,768
Total	21,382	25,992
Total unmatured debt	470,363	464,796

Public debt charges lower in April 1997 to February 1998 period

Public debt charges were down \$1.0 billion, or 2.4 per cent, on a year-over-year basis. This decline was attributable to lower average effective interest rates on the federal government's debt.



The Fiscal Monitor

Table 3
Budgetary expenditures

	February		April to February		Per cent change
	1997	1998	1996-97	1997-98	
	(millions of dollars)				(%)
Transfer payments to:					
Persons					
Elderly benefits	1,819	1,880	19,754	20,317	2.9
Employment insurance benefits	1,133	1,193	11,176	10,418	-6.8
Total	2,952	3,073	30,930	30,735	-0.6
Other levels of government					
Canada Health and Social Transfer	1,267	962	13,860	11,130	-19.7
Fiscal transfers	737	698	8,543	8,434	-1.3
Alternative Payments for Standing Programs	-166	-180	-1,845	-1,964	6.4
Total	1,838	1,480	20,558	17,600	-14.4
Subsidies and other transfers					
Agriculture	136	111	809	654	-19.2
Foreign Affairs	202	205	1,542	1,464	-5.1
Human Resources Development	270	221	1,652	1,350	-18.3
Indian and Northern Development	212	265	3,249	3,439	5.8
Industry and Regional Development	209	230	1,447	1,570	8.5
Veterans Affairs	114	115	1,250	1,254	0.3
Other	361	302	2,701	3,103	14.9
Total	1,504	1,449	12,650	12,834	1.5
Total transfers	6,294	6,002	64,138	61,169	-4.6
Payments to Crown corporations					
Canadian Broadcasting Corporation	100	56	897	802	-10.6
Canada Mortgage and Housing Corporation	118	125	1,701	1,528	-10.2
Other	96	91	1,111	994	-10.5
Total	314	272	3,709	3,324	-10.4
Operating and capital expenditures					
Defence	783	741	8,024	7,741	-3.5
All other departmental expenditures	1,429	1,430	15,893	15,724	-1.1
Total	2,212	2,171	23,917	23,465	-1.9
Total program expenditures	8,820	8,445	91,764	87,958	-4.1
Public debt charges	3,571	3,611	40,952	39,987	-2.4
Total budgetary expenditures	12,391	12,056	132,716	127,945	-3.6

beginning in 1995-96. In addition, the restraint measures announced as part of the March 1996 budget Program Review exercise will further reduce this component's spending in 1998-99. Within direct program spending, other transfer payments were up, primarily reflecting the timing

of payments associated with the sale of the Air Navigation System to Nav Canada. Payments to Crown corporations, defence and all other departmental spending were lower. These declines primarily reflected the impact of restraint measures.

Table 4

The deficit/surplus and financial requirements/surplus

	February		April to February	
	1997	1998	1996-97	1997-98
	(millions of dollars)			
Deficit(-)/surplus(+)	-485	788	-7,827	4,104
Loans, investments and advances				
Crown corporations	23	216	878	1,095
Other	-17	-20	-411	-300
Total	6	196	467	795
Specified purpose accounts				
Canada Pension Plan Account	509	42	-350	-344
Superannuation accounts	-232	-296	6,181	5,391
Other	143	49	441	-181
Total	420	-205	6,272	4,866
Other transactions	2,826	2,172	2,061	1,558
Total non-budgetary transactions	3,252	2,163	8,800	7,219
Financial requirements/surplus (excluding foreign exchange transactions)	2,767	2,951	973	11,323
Foreign exchange transactions	-472	-4,941	-5,466	1,031
Total financial requirements/surplus	2,295	-1,990	-4,493	12,354

Table 5

Financial requirements/surplus and unmatured debt transactions

	February		April to February	
	1997	1998	1996-97	1997-98
	(millions of dollars)			
Total financial requirements/surplus	2,295	-1,990	-4,493	12,354
Unmatured debt transactions				
Payable in Canadian dollars				
Marketable bonds	3,600	-3,100	31,660	13,788
Canada Savings Bonds	-405	-186	2,335	-2,755
Treasury bills	-2,750	1,800	-37,700	-26,200
Other	-316	-169	-9	-10
Subtotal	129	-1,655	-3,714	-15,177
Less: Government's holdings of unmatured debt	135	94	-43	145
Total	264	-1,561	-3,757	-15,032
Payable in foreign currencies				
Marketable bonds	0	2,906	2,743	2,780
Notes and loans	0	0	0	0
Canada bills	232	1,110	40	548
Canada notes	0	0	1,789	-353
Total	232	4,016	4,572	2,975
Total unmatured debt transactions	496	2,455	815	-12,057
Change in cash balance	2,791	465	-3,678	297

The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for March 1998

Surplus of \$63 million in March 1998

A surplus of \$63 million was reported for March 1998, compared to a deficit of \$1.8 billion in March 1997.

Budgetary revenues were up \$2.8 billion largely attributable to higher personal and corporate income tax collections. Personal income tax collections were up \$1.1 billion. About half of this increase was due to special factors, including the impact of lower personal income tax refunds in March 1998 and a transfer of funds to the Provincial Tax Collection Account in March 1997. The remaining increase was largely attributable to strong growth in the economy. Corporate income tax collections were up \$1.2 billion, reflecting higher final payments relating to the 1997 taxation year.

Higher employment insurance benefit payments (up \$0.3 billion), increased cash transfers to other levels of government (up \$0.4 billion), and higher operating and capital expenditures (up \$0.4 billion) explain the \$1 billion year-over-year increase in program spending. The increase in employment insurance benefit payments was attributable to the timing of payments, as the number of unemployed was lower. Transfers under the former Established Programs Financing program, relating to underpayments for 1995-96, accounted for most of the increase in transfers to other levels of government. The increase in operating and capital expenditures was due to a court settlement and the timing of payments.

Year to date: budgetary surplus of \$4.2 billion

Over the period April 1997 to March 1998, the budgetary surplus stood at \$4.2 billion, compared to a budgetary deficit of \$9.6 billion in the same period in 1995-96.

- Budgetary revenues were up \$10.0 billion or 7.3 per cent, on a year-over-year basis. All of this increase was due to the growth in the economy.
- Program spending was down \$2.8 billion or 2.7 per cent, primarily reflecting the impact of the restraint measures introduced in the 1994 and 1995 budgets.
- Public debt charges were down by \$1.0 billion, or 2.3 per cent. This reflected declines in interest rates, especially short-term rates.

Final results to come in the fall

The financial results for the April 1997 to March 1998 period are not the final results for the 1997-98 fiscal year. Still to come are the regular end-of-year accounting adjustments.

- Consistent with government accounting principles, these "end-of-year accounting" adjustments incorporate increases to program spending to include the costs of liabilities incurred during the fiscal year for which no payments were made in 1997-98. Adjustments are also made to budgetary revenues, primarily to reflect cash-in-transit at year end.
- Based on the financial results to date, coupled with expected developments in the end-of-year accounting period, and incorporating the impact of liabilities announced in the 1998 budget, such as the Canada Millennium Scholarship Fund, a balanced budget will be recorded in 1997-98.

The final audited financial results will be available in the *Annual Financial Report*, scheduled for release in the fall of 1998.



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Table 1

Summary statement of transactions

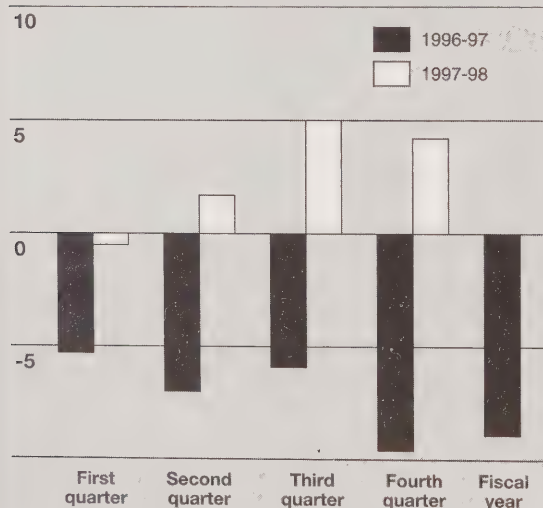
	March		April to March	
	1997	1998	1996-97	1997-98
(millions of dollars)				
Budgetary transactions				
Revenues	12,422	15,271	137,312	147,320
Program spending	-10,434	-11,478	-102,198	-99,437
Operating surplus	1,988	3,793	35,114	47,883
Public debt charges	-3,798	-3,730	-44,750	-43,716
Deficit/surplus	-1,810	63	-9,636	4,167
Non-budgetary transactions	1,967	1,333	10,768	8,549
Financial requirements/surplus (excluding foreign exchange transactions)	157	1,396	1,132	12,716
Foreign exchange transactions	-2,058	-2,871	-7,524	-1,840
Total financial requirements/surplus	-1,901	-1,475	-6,392	10,876
Unmatured debt transactions	6,377	2,163	7,192	-9,896

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

The federal budgetary balance 1996-97 and 1997-98

Year to date

billions of dollars



Budgetary revenues up \$10.0 billion in April 1997 to March 1998 period

Over the April 1997 to March 1998 period, budgetary revenues were up \$10.0 billion, or 7.3 per cent, on a year-over-year basis. This increase primarily reflects the continuing strong economic growth.

- Personal income tax collections were up \$6.2 billion, or 9.8 per cent. This increase was due to higher taxes paid on filing and quarterly instalment payments, relating to the stronger income growth in the 1996 taxation year, and to higher deductions at source from employment, in line with the strong gains in employment since the beginning of last year.
- Corporate income tax collections were up \$4.3 billion, or 26.5 per cent, attributable to an increase in corporate profits, in line with the strengthening economy. Settlement period collections in March 1998, relating to corporations with taxation years ending December 1997, were up \$1.2 billion.
- Employment insurance premiums were down \$1.0 billion, or 5.3 per cent. Most of this decrease was attributable to the impact of the change in remittance requirements, which came into effect in January 1997. This resulted in a one-time increase

Table 2

Budgetary revenues

	March		April to March		Per cent change
	1997	1998	1996-97	1997-98	
	(millions of dollars)				(%)
Income taxes					
Personal income tax	2,948	4,075	63,175	69,338	9.8
Corporate income tax	3,131	4,361	16,102	20,373	26.5
Other income tax revenue	175	202	2,449	2,415	-1.4
Total income tax	6,254	8,638	81,726	92,126	12.7
Employment insurance premium revenues	1,866	1,781	19,800	18,758	-5.3
Excise taxes and duties					
Goods and services tax	1,765	1,803	16,658	18,126	8.8
Customs import duties	204	284	2,503	2,588	3.4
Sales and excise taxes	595	698	8,028	8,450	5.3
Total excise taxes and duties	2,564	2,785	27,189	29,164	7.3
Total tax revenues	10,684	13,204	128,715	140,048	8.8
Non-tax revenues	1,738	2,067	8,597	7,272	-15.4
Total budgetary revenues	12,422	15,271	137,312	147,320	7.3

in premium revenues in the final quarter of 1996-97 of about \$1 billion. The impact of lower premium rates was offset by increases in the number of employed.

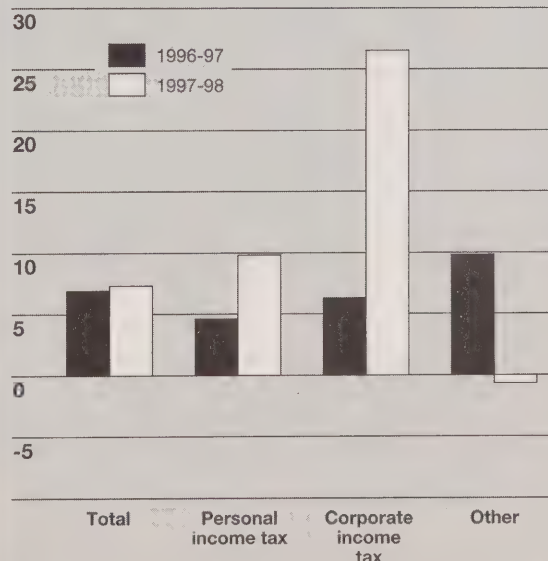
- Net goods and services tax (GST) collections were up \$1.5 billion, or 8.8 per cent, consistent with the growth in consumer expenditures subject to this tax.
- Customs import duties were up slightly, as the strong growth in imports witnessed in 1997 more than offset the impact of tariff reductions. Other excise taxes and duties were up \$0.4 billion, or 5.3 per cent.
- Non-tax revenues, consisting of return on investments and other non-tax revenues, such as fees and proceeds from sales, among others, were down \$1.3 billion or 15.4 per cent. This decline was attributable to the inclusion in the 1996-97 results of the proceeds (\$1.5 billion) from the sale of the Air Navigation System.

Based on the results to date, it is expected that the final outcome for budgetary revenues will be somewhat higher than estimated in the February 1998 budget. The final outcome will depend upon cash received in March 1998 but not deposited with the Receiver General until April 1998.

Budgetary revenues 1996-97 and 1997-98

April to March
Year-over-year growth

per cent change



Program spending down \$2.8 billion in April 1997 to March 1998 period

Program spending declined by \$2.8 billion, or 2.7 per cent, in the April 1997 to March 1998 period, compared to the same period last year. The decline in program spending was primarily attributable to the effect of the restraint measures introduced in the 1994 and 1995 budgets and, to a lesser extent, the growth in the economy.

Major transfers to persons increased \$0.2 billion, solely due to higher elderly benefit payments (up \$0.6 billion), as employment insurance benefit payments were \$0.5 billion lower.

- The higher elderly benefits reflect an increase in the number eligible for benefits and higher average benefits, which are indexed to inflation.
- The decline in employment insurance benefit payments was primarily due to a decline in the number of beneficiaries, primarily reflecting the impact of reform measures and a decline in the number of unemployed.

Major transfers to other levels of government were down \$2.5 billion, reflecting lower cash transfers under the Canada Health and Social Transfer (CHST). In contrast, fiscal transfers were up \$0.3 billion.

- In the February 1995 budget, the government set total entitlements under the CHST for 1997-98 at \$25.1 billion, down \$1.8 billion from 1996-97. These entitlements are paid to the provinces in the form of tax point transfers and cash. The tax point transfer component represents the value of "tax room" which the federal government made available to provinces, allowing the provinces to increase their tax rates by an equivalent amount, with no impact on the taxpayer. The value of the tax point transfer increases in line with the growth in the applicable tax bases. The cash transfer, therefore, is the difference between the entitlement and an increasing value in the tax point transfer. Being a residual, the cash transfer, which is part of program spending, is affected not only by the change in entitlements, but also by the growth in the value of the tax point transfer. Cash transfers under the CHST were down \$2.7 billion over the April 1997 to March 1998 period, compared to the same period last year, of which \$1.8 billion was attributable to the reduction in entitlements with the remainder due to the increase in the value of the tax point transfer. The government has announced that the cash component of the CHST transfer will not fall below \$12.5 billion for the period 1997-98 to 2002-03.

Legislation is currently before Parliament to effect this change. Under the current legislation, the cash transfer was not allowed to fall below \$11 billion.

- The increase in fiscal transfers was largely attributable to final payments under the old Established Programs Financing program (since replaced by the CHST) for the year 1995-96. In addition, transfers under the Equalization program were up slightly.

Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, declined by \$0.4 billion in the April 1997 to March 1998 period, compared to the same period last year. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. In contrast to the reduction to entitlements to other levels of government, which took effect in 1996-97, the restraint measures introduced in the 1994 and 1995 budgets resulted in significant reductions beginning in 1995-96. In addition, the restraint measures announced as part of the March 1996 budget Program Review exercise will further reduce spending in this component in 1998-99.

Budgetary expenditures 1996-97 and 1997-98

April to March
Year-over-year growth

per cent change

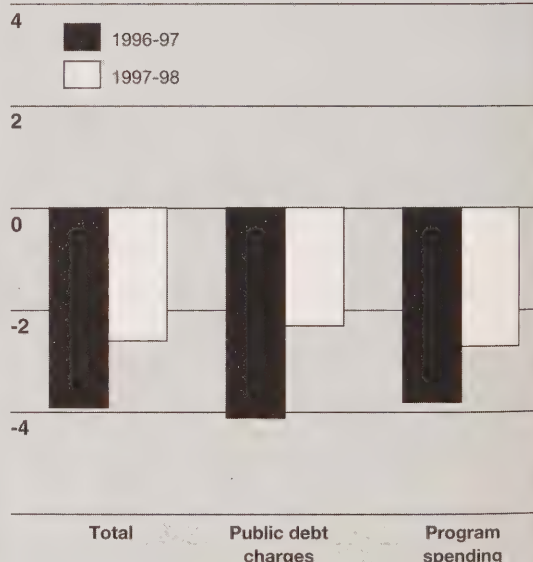


Table 3

Budgetary expenditures

	March		April to March		Per cent change
	1997	1998	1996-97	1997-98	
	(millions of dollars)				(%)
Transfer payments to:					
Persons					
Elderly benefits	1,841	1,894	21,594	22,212	2.9
Employment insurance benefits	1,176	1,479	12,352	11,897	-3.7
Total	3,017	3,373	33,946	34,109	0.5
Other levels of government					
Canada Health and Social Transfer	1,051	1,103	14,911	12,233	-18.0
Fiscal transfers	607	1,012	9,150	9,446	3.2
Alternative Payments for Standing Programs	-167	-156	-2,012	-2,120	5.4
Total	1,491	1,959	22,049	19,559	-11.3
Subsidies and other transfers					
Agriculture	90	150	899	804	-10.6
Foreign Affairs	338	362	1,881	1,825	-3.0
Human Resources Development	173	272	1,826	1,622	-11.2
Indian and Northern Development	179	221	3,428	3,660	6.8
Industry and Regional Development	278	332	1,725	1,902	10.3
Veterans Affairs	113	114	1,363	1,368	0.4
Other	1,853	1,530	4,554	4,633	1.7
Total	3,024	2,981	15,676	15,814	0.9
Total transfers	7,532	8,313	71,671	69,482	-3.1
Payments to Crown corporations					
Canadian Broadcasting Corporation	100	61	997	863	-13.4
Canada Mortgage and Housing Corporation	197	135	1,898	1,663	-12.4
Other	108	86	1,220	1,080	-11.5
Total	405	282	4,115	3,606	-12.4
Operating and capital expenditures					
Defence	687	811	8,712	8,552	-1.8
All other departmental expenditures	1,810	2,072	17,700	17,797	0.5
Total	2,497	2,883	26,412	26,349	-0.2
Total program expenditures	10,434	11,478	102,198	99,437	-2.7
Public debt charges	3,798	3,730	44,750	43,716	-2.3
Total budgetary expenditures	14,232	15,208	146,948	143,153	-2.6

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Table 4

The budgetary balance and financial requirements/surplus

	March		April to March	
	1997	1998	1996-97	1997-98
	(millions of dollars)			
Deficit (-)/surplus (+)	-1,810	63	-9,636	4,167
Loans, investments and advances				
Crown corporations	-4	148	874	1,243
Other	-54	0	-465	-301
Total	-58	148	409	942
Specified purpose accounts				
Canada Pension Plan Account	467	803	117	459
Superannuation accounts	2,570	2,692	8,751	8,083
Other	87	207	528	26
Total	3,124	3,702	9,396	8,568
Other transactions	-1,099	-2,517	963	-961
Total non-budgetary transactions	1,967	1,333	10,768	8,549
Financial requirements/surplus (excluding foreign exchange transactions)	157	1,396	1,132	12,716
Foreign exchange transactions	-2,058	-2,871	-7,524	-1,840
Total financial requirements/surplus	-1,901	-1,475	-6,392	10,876

Table 5

Financial requirements/surplus and unmatured debt transactions

	March		April to March	
	1997	1998	1996-97	1997-98
	(millions of dollars)			
Total financial requirements/surplus	-1,901	-1,475	-6,392	10,876
Unmatured debt transactions				
Payable in Canadian dollars				
Marketable bonds	-1,989	-1,810	29,671	11,978
Canada Savings Bonds	-259	-145	2,076	-2,900
Treasury bills	7,000	3,100	-30,700	-23,100
Other	-1	-1	-11	-11
Subtotal	4,751	1,144	1,036	-14,033
Less: Government's holding of unmatured debt	194	98	152	241
Total	4,945	1,242	1,188	-13,792
Payable in foreign currencies				
Marketable bonds	0	629	2,743	3,409
Notes and loans	0	0	0	0
Canada bills	1,410	436	1,450	984
Canada notes	22	-144	1,811	-497
Total	1,432	921	6,004	3,896
Total unmatured debt transactions	6,377	2,163	7,192	-9,896
Change in cash balance	4,476	688	800	980

Table 6

Cash, unmatured debt and debt balances: at March 31

	1997	1998
	(millions of dollars)	
Cash balances at end of period		
In Canadian dollars	9,254	10,293
In foreign currencies	89	49
Total cash balance	9,343	10,342
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	282,436	294,541
Treasury bills	135,400	112,300
Canada Savings Bonds	33,503	30,593
Other	3,467	3,456
Subtotal	454,806	440,890
Less: Government's holdings of unmatured debt	883	846
Total	453,923	440,044
Payable in foreign currencies		
Marketable bonds	12,257	15,869
Notes and loans	0	0
Canada bills	8,436	9,420
Canada notes	2,121	1,624
Total	22,814	26,913
Total unmatured debt	476,737	466,957

- Within direct program spending, payments to Crown corporations were down \$0.5 billion, while operating and capital expenditures declined \$0.1 billion. These declines primarily reflected the impact of restraint measures, although the net effect was dampened by the timing of payments and the costs associated with the June 1997 general election. Other transfers were up slightly, in part due to expenditures related to the Manitoba flood and the ice storm in eastern Canada.

Public debt charges down \$1.0 billion in April 1997 to March 1998 period

Public debt charges were down \$1.0 billion, or 2.3 per cent, on a year-over-year basis. This decline was attributed to lower average effective interest rates on the federal government's debt.

Financial surplus in 1997-98

Although final budgetary results will not be available until the fall of 1998, the results for the financial surplus for the April to March period do not differ significantly from the final audited results. This is because the financial results

measure the difference between cash coming in to the government and cash going out, whereas the budgetary balance results are on a modified accrual basis of accounting. The financial surplus results are usually higher than the budgetary surplus, as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. In addition, the budgetary surplus is largely presented on the accrual basis of accounting. The conversion from accrual to cash is also reflected in non-budgetary transactions. On balance, non-budgetary transactions usually provide the government with a net source of funds.

Non-budgetary transactions provided the government with a net source of funds, over the April 1997 to March 1998 period, amounting to \$8.5 billion, compared to a net source of \$10.8 billion in the same period last year. The lower source was attributable to the transfer of applicable pension assets to Nav Canada and the special one-time payment to the Canada Foundation for Innovation.

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With a budgetary surplus of \$4.2 billion and a net source of funds from non-budgetary transactions of \$8.5 billion, there was a financial surplus, excluding foreign exchange transactions, of \$12.7 billion as of March 31, 1998. The February 1998 budget estimated a financial surplus, excluding foreign exchange transactions, for 1997-98 of \$12.0 billion. In 1996-97, there was a net source of \$1.1 billion.

The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. It fulfils this function by buying foreign exchange (selling Canadian currency) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure. Preliminary estimates indicate a net foreign exchange transactions requirement for 1997-98 of \$1.8 billion, compared to a net requirement of \$7.5 billion in 1996-97.

As a result, preliminary estimates suggest that there was a financial surplus, including foreign exchange transactions, of \$10.9 billion in 1997-98, compared to a net requirement of \$6.4 billion in 1996-97.

The federal government retired \$9.9 billion of its market debt. The structure of the government's debt has also changed significantly, in order to further reduce the

exposure to unexpected changes in interest rates. The share of debt held in short-term floating rate instruments, primarily Treasury bills, has been reduced, while the share held in longer-term rate instruments has increased.

The Debt Servicing and Reduction Account

In June 1991, legislation to establish the Debt Servicing and Reduction Account received Royal Assent. As a result, effective April 1, 1991, all goods and services tax revenue net of the applicable input tax credits, rebates and the low income credit, along with the net proceeds from the sale of Crown corporations and gifts to the Crown identified for debt reduction must, by law, go directly to the Debt Servicing and Reduction Account. The funds in this Account can only be used to pay the cost of servicing the public debt and ultimately to reduce the debt. The Account is audited on an annual basis by the Auditor General of Canada. In his "Observations" on the 1996-97 financial statements, the Auditor General questioned the need for this Account, given the fundamental concept of the Consolidated Revenue Fund. The government has indicated that it would review this issue.

Table 7

Debt Servicing and Reduction Account (DSRA)

	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
	(millions of dollars)					
Gross GST collected	29,564	30,516	32,652	36,715	38,048	40,733
Less:						
Refunds and rebates	11,330	12,138	14,271	17,112	18,874	19,782
Quarterly low-income tax credit	2,262	2,503	2,685	2,816	2,799	2,872
Net GST	15,168	14,868	15,696	16,787	16,374	18,079
GST penalties and interest received	19	71	90	129	135	159
Gains from wind-up of interest in Crown corporations/disposal of shares in Crown corporations	2	110			325	
Gifts to the Crown	0.4	0.1	0.2	0.5	0.3	0.3
Proceeds to the DSRA	15,190	15,050	15,786	16,916	16,835	18,238

Source: *Public Accounts of Canada* – 1997

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May 1998



The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for April 1998

Budgetary surplus up in April 1998

There was a surplus of \$1.6 billion in April 1998, up \$0.1 billion from the restated estimate for April 1997 (see "Note to users" on next page). Budgetary revenues were up 1.6 per cent, on a year-over-year basis, while public debt charges were down 0.4 per cent. Program spending increased by 1.0 per cent.

The year-over-year increase in budgetary revenues reflected strong advances in personal and corporate income tax collections – the net impact of which was dampened by declines in employment insurance premium revenues and in goods and services tax (GST) collections.

- Personal income tax collections were up 6.4 per cent, or \$0.4 billion, primarily due to strong gains in employment since the beginning of the year and higher taxes paid on filing, related to the 1997 taxation year. The overall increase was dampened by higher tax refunds, up 15.3 per cent, or \$0.6 billion.
- Corporate income tax collections were up 7.4 per cent, or \$0.1 billion.
- Employment insurance premium revenues were down 5.2 per cent, or \$0.1 billion. This was attributable to lower premium rates. The employee premium rate for 1998 is \$2.70 (per \$100 of insurable earnings), compared to a rate of \$2.90 for 1997. The decline in premium rates more than offsets the impact of the increase in the number of employed on overall premium revenues.

- Net GST collections fell 8.9 per cent, or \$0.2 billion, as higher refunds and rebates more than offset a strong growth in gross collections.
- The other components of revenues were relatively unchanged from last year's level.

The increase in program spending was largely attributable to higher subsidies and other transfers related to obligations under the Bretton Woods and Related Agreements and compensation payments related to the ice storm in eastern Canada. Among the other components:

- Major transfers to persons were up slightly as increased elderly benefit payments more than offset a decline in employment insurance benefits.
- Major transfers to other levels of government were down slightly, primarily due to recoveries under Alternative Payments for Standing Programs. Cash transfers under the Canada Health and Social Transfer were unchanged as legislation prevents the annual cash component of this transfer from falling below \$12.5 billion for the period 1997-98 to 2002-03.
- Payments to Crown corporations were unchanged while operating and capital expenditures were lower, reflecting the impact of the 1996 budget restraint measures.

The decline in public debt charges was attributable to a decline in the stock of interest-bearing debt and lower average effective interest rates on that stock.



The Fiscal Monitor

Table 1

Summary statement of transactions

	April	
	1997	1998
	(millions of dollars)	
Budgetary transactions		
Revenue	12,302	12,500
Program spending	-7,386	-7,462
Operating surplus	4,916	5,038
Public debt charges	-3,467	-3,454
Deficit/surplus	1,449	1,584
Non-budgetary transactions	-4,444	-3,856
Financial requirements/surplus (excluding foreign exchange transactions)	-2,995	-2,272
Foreign exchange transactions	3,589	1,287
Total financial requirements/surplus	594	-985
Unmatured debt transactions	-5,092	-5,557

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Total financial requirement up in April 1998

Despite a budgetary surplus of \$1.6 billion, total financial requirements amounted to \$1.0 billion in April 1998, compared to a financial surplus of \$0.6 billion in April 1997. This was attributable to a lower net source of funds from foreign exchange transactions. In April 1998, foreign exchange transactions provided the government with a net source of funds amounting to \$1.3 billion, compared to a net source of \$3.6 billion in April 1997. Non-budgetary transactions resulted in a net requirement of \$3.9 billion in April 1998, down from a net requirement of \$4.4 billion in April 1997.

Market debt lower

The government retired \$5.6 billion of market debt in April 1998 by reducing its cash balances. In total, cash balances were reduced by \$6.5 billion.

Note to users

With this *Fiscal Monitor*, a number of accounting adjustments are being introduced to make the monthly budgetary results more reflective of current developments and to reduce the magnitude of the end-of-year adjustments. The monthly results for 1997-98 are being restated so that year-over-year comparisons can be made. These changes will have no impact on financial requirements/surpluses. The changes largely respond to suggestions made in Chapter 3 of the Auditor General's April 1997 report.

The remittance date for some revenue sources (particularly the GST) is the last day of the month. This means that most of these revenues are not deposited with the government until the first banking day of the following month. If the last remittance day of the month falls on a statutory holiday or on a weekend, these revenues are often not deposited with the government until the second banking day of the following month.

The Fiscal Monitor

Table 2

Budgetary revenues

	April		Per cent change
	1997	1998	
	(millions of dollars)		(%)
Income taxes			
Personal income tax	5,835	6,209	6.4
Corporate income tax	1,156	1,241	7.4
Other income tax revenue	297	286	-3.7
Total income tax	7,288	7,736	6.1
Employment insurance premium revenues	1,844	1,748	-5.2
Excise taxes and duties			
Goods and services tax	1,979	1,803	-8.9
Customs import duties	153	174	13.7
Sales and excise taxes	666	621	-6.8
Total excise taxes and duties	2,798	2,598	-7.1
Total tax revenues	11,930	12,082	1.3
Non-tax revenues	372	418	12.4
Total budgetary revenues	12,302	12,500	1.6

Although adjustments are made at year end to allocate such revenues to the appropriate fiscal year, up to now such adjustments were not made on a monthly basis. As a result, the revenue numbers, particularly for April, were significantly understated with adjustments only made at the end of the fiscal year – in the year-end accounting period. In addition, there were often large year-over-year variations in the recording of revenues on a monthly basis due solely to the timing of such remittances, making analysis of the current results difficult. Therefore, the cut-off date for revenues applicable to the current month has been changed from the last day of the month to the end of the second banking day of the next month.

Although budgetary expenditures are on an accrual basis of accounting, a number of adjustments in the past were only made at year end. These included the accrual of wages and salaries and the amortization of actuarial balances in the public service pension accounts, among others. Such adjustments will now be made on a monthly basis, provided reasonable estimates can be made.

These changes will put the monthly results on an accounting basis that more closely approximates that used in the final fiscal year results.

The Fiscal Monitor

Table 6

Cash, unmatured debt and debt balances

	March 31, 1998	April 30, 1998
	(millions of dollars)	
Cash balances at end of period		
In Canadian dollars	10,243	3,741
In foreign currencies	49	8
Total cash balance	10,292	3,749
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	294,541	294,541
Treasury bills	112,300	108,100
Canada Savings Bonds	30,593	29,964
Other	3,456	3,455
Subtotal	440,890	436,060
<i>Less: Government's holdings of unmatured debt</i>	<i>846</i>	<i>756</i>
Total	440,044	435,304
Payable in foreign currencies		
Marketable bonds	15,869	15,869
Notes and loans	0	0
Canada bills	9,420	8,603
Canada notes	1,624	1,624
Total	26,913	26,096
Total unmatured debt	466,957	461,400

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July 1998



The Fiscal Monitor

Table 3

Budgetary expenditures

	April		Per cent change
	1997	1998	
	(millions of dollars)		(%)
Transfer payments to:			
Persons			
Elderly benefits	1,790	1,821	1.7
Employment insurance benefits	1,134	1,114	-1.8
Total	2,924	2,935	0.4
Other levels of government			
Canada Health and Social Transfer	1,042	1,042	0.0
Fiscal transfers	638	642	0.6
Alternative Payments for Standing Programs	-178	-187	5.1
Total	1,502	1,497	-0.3
Subsidies and other transfers			
Agriculture	4	5	25.0
Foreign Affairs	49	100	104.1
Health	68	84	23.5
Human Resources Development	52	58	11.5
Indian and Northern Development	716	778	8.7
Industry and Regional Development	79	72	-8.9
Veterans Affairs	112	114	1.8
Other	200	190	-5.0
Total	1,280	1,401	9.5
Total transfers	5,706	5,833	2.2
Payments to Crown corporations			
Canadian Broadcasting Corporation	112	147	31.3
Canada Mortgage and Housing Corporation	139	125	-10.1
Other	137	116	-15.3
Total	388	388	0.0
Operating and capital expenditures			
Defence	355	346	-2.5
All other departmental expenditures	937	895	-4.5
Total	1,292	1,241	-3.9
Total program expenditures	7,386	7,462	1.0
Public debt charges	3,467	3,454	-0.4
Total budgetary expenditures	10,853	10,916	0.6

Table 4

The budgetary balance and financial balance

	April	
	1997	1998
	(millions of dollars)	
Deficit (-)/surplus (+)	1,449	1,584
Loans, investments and advances		
Crown corporations	-253	101
Other	22	93
Total	-231	194
Specified purpose accounts		
Canada Pension Plan Account	513	599
Superannuation accounts	406	565
Other	-26	-40
Total	893	1,124
Other transactions	-5,106	-5,174
Total non-budgetary transactions	-4,444	-3,856
Financial requirements/surplus (excluding foreign exchange transactions)	-2,995	-2,272
Foreign exchange transactions	3,589	1,287
Total financial requirements/surplus	594	-985

Table 5

Financial balance and unmatured debt transactions

	April	
	1997	1998
	(millions of dollars)	
Total financial requirements/surplus	594	-985
Unmatured debt transactions		
Payable in Canadian dollars		
Marketable bonds	0	0
Canada Savings Bonds	-289	-629
Treasury bills	-3,700	-4,200
Other	-1	-1
Subtotal	-3,990	-4,830
Less: Government's holdings of unmatured debt	143	90
Total	-3,847	-4,740
Payable in foreign currencies		
Marketable bonds	0	0
Notes and loans	0	0
Canada bills	-940	-817
Canada notes	-305	0
Total	-1,245	-817
Total unmatured debt transactions	-5,092	-5,557
Change in cash balance	-4,498	-6,542

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The Fiscal Monitor

A Publication of the Department of Finance



Highlights of financial results for May 1998

Budgetary surplus of \$1.4 billion recorded in May 1998

A budgetary surplus of \$1.4 billion was recorded in May 1998, compared to a restated deficit of \$37 million in May 1997. Budgetary revenues were up \$1.6 billion (14.5 per cent), while program spending declined \$0.1 billion (1.7 per cent). Public debt charges were up \$0.2 billion (6.5 per cent).

The increase in budgetary revenues was primarily due to higher personal income tax collections (\$1.0 billion), increased goods and services tax (GST) collections (up \$0.4 billion), and higher corporate income tax collections (up \$0.3 billion).

- The increase in personal income tax collections reflected both strong growth in source deductions due to gains in employment and higher taxes paid on filing relating to the 1997 taxation year.
- The increase in GST collections was attributable, in part, to higher refunds in May 1997, which served to depress collections in that month.
- In contrast, employment insurance premium revenues were lower, reflecting the decline in premium rates for 1998.

The decline in program spending was largely attributable to lower direct program spending, reflecting the impact of the 1996 budget measures. The increase in public debt charges was due to higher average effective interest rates reflecting changes in the composition of the government's interest-bearing debt.

Budgetary surplus of \$3.0 billion for April and May 1998

Over the first two months of the 1998-99 fiscal year, the budgetary surplus was estimated at \$3.0 billion, up \$1.6 billion from the restated surplus of \$1.4 billion estimated for the same period last year. This increase was primarily attributable to the continued strength in the economy. Budgetary revenues were up \$1.8 billion (7.6 per cent). Program spending declined \$0.1 billion (0.3 per cent), but this was more than offset by higher public debt charges (\$0.2 billion, or 3.0 per cent).

Within budgetary revenues:

- Personal income tax collections were up \$1.4 billion, or 12.4 per cent, reflecting both higher taxes paid on filing, relating to strong income growth in the 1997 taxation year, and an increase in deductions from employment income, due to increases in the number of people employed.
- Corporate income tax collections were up \$0.4 billion, or 17.3 per cent, attributable to an increase in gross corporate profits, in line with the continued strength in certain sectors of the economy.
- Employment insurance premium revenues were down \$0.2 billion, or 4.3 per cent. This was due to lower premium rates. The employee premium rate for 1998 is \$2.70 (per \$100 of insurable earnings), compared to a rate of \$2.90 for 1997 (with a comparable decline in the employer rate).



The Fiscal Monitor

Table 1

Summary statement of transactions

	May		April to May	
	1997	1998	1997-98	1998-99
	(millions of dollars)			
Budgetary transactions				
Revenue	10,789	12,352	23,090	24,853
Program spending	-7,453	-7,324	-14,838	-14,788
Operating surplus	3,336	5,028	8,252	10,065
Public debt charges	-3,373	-3,593	-6,840	-7,046
Deficit/surplus	-37	1,435	1,412	3,019
Non-budgetary transactions	3,058	4,187	-1,385	331
Financial requirements/surplus (excluding foreign exchange transactions)	3,021	5,622	27	3,350
Foreign exchange transactions	-1,698	1,178	1,891	2,465
Total financial requirements/surplus	1,323	6,800	1,918	5,815
Unmatured debt transactions	-3,224	-5,682	-8,317	-11,239
Change in cash balances	-1,091	1,118	-6,399	-5,424

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

This decline in premium rates more than offsets the impact of the increase in the number of employed on overall premium revenues.

- GST collections were up \$0.2 billion, or 7.7 per cent. This increase is broadly in line with the growth in domestic demand.
- Customs import duties were down \$0.1 billion or 15.3 per cent, reflecting the impact of tariff reductions, while other excise taxes and duties were marginally lower.

Within program spending:

- Major transfers to persons were up slightly, on a year-over-year basis, as lower employment insurance benefit payments were offset by

higher elderly benefit payments. The decline in employment insurance benefits was due to the decline in beneficiaries, reflecting lower numbers of unemployed.

- Major transfers to other levels of government were down slightly, solely due to recoveries under Alternative Payments for Standing Programs. Cash entitlements under the Canada Health and Social Transfer (CHST) were unchanged as current legislation prevents the fiscal year cash entitlement for the period 1997-98 to 2002-03 from falling below \$12.5 billion. With this cash entitlement floor and a rising value in the tax point transfers, total entitlements under the CHST are increasing.

The Fiscal Monitor

Table 2

Budgetary revenues

	May		April to May		Per cent change
	1997	1998	1997-98	1998-99	
	(millions of dollars)				(%)
Income taxes					
Personal income tax	5,292	6,294	11,127	12,503	12.4
Corporate income tax	1,304	1,644	2,460	2,886	17.3
Other income tax revenue	124	143	420	429	2.1
Total income tax	6,720	8,081	14,007	15,818	12.9
Employment insurance premium revenues	1,857	1,795	3,701	3,543	-4.3
Excise taxes and duties					
Goods and services tax	849	1,244	2,828	3,047	7.7
Customs import duties	225	146	378	320	-15.3
Sales and excise taxes	675	694	1,341	1,315	-1.9
Total excise taxes and duties	1,749	2,084	4,547	4,682	3.0
Total tax revenues	10,326	11,960	22,225	24,043	8.0
Non-tax revenues	463	392	835	810	-3.0
Total budgetary revenues	10,789	12,352	23,090	24,853	7.6

- Excluding major transfers to persons and other levels of government, all other program spending, or direct program spending, was down slightly. This component includes subsidy and other transfer payments, payments to Crown corporation, and the operating and capital costs of government, including defence. The decline in this component was attributable to the impact of the 1996 budget measures.

The increase in public debt charges primarily reflected a slight increase in the average effective interest rate due to the changes in the composition of interest-bearing debt. Although the stock of market debt (unmatured debt) was lower in May 1998 than in the same period last year, the overall stock of interest-bearing debt was little changed, reflecting the increase in pension debt. The latter is credited with the 10-year-plus government bond rate.

Financial surplus of \$5.8 billion for April and May 1998

Non-budgetary transactions provided the government with a net source of funds, amounting to \$0.3 billion, compared to a net requirement of \$1.4 billion in the same period last year. Foreign exchange transactions resulted in a net source of \$2.5 billion, compared to a net source of \$1.9 billion in the same period last year.

As a result, there was a financial surplus, including foreign exchange transactions, of \$5.8 billion in the April and May 1998 period. In the same period last year, there was a surplus of \$1.9 billion.

With this financial surplus and a reduction in cash balances of \$5.4 billion, the government retired \$11.2 billion of market debt in the first two months of 1998-99.

The Fiscal Monitor

Table 6

Cash, unmatured debt and debt balances

	March 31, 1998	May 31, 1998
	(millions of dollars)	
Cash balances at end of period		
In Canadian dollars	10,243	4,837
In foreign currencies	49	30
Total cash balance	10,292	4,867
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	294,541	298,441
Treasury bills	112,300	99,200
Canada Savings Bonds	30,593	29,599
Other	3,456	3,511
Subtotal	440,890	430,751
Less: Government's holdings of unmatured debt	846	667
Total	440,044	430,084
Payable in foreign currencies		
Marketable bonds	15,869	15,869
Notes and loans	0	0
Canada bills	9,420	8,141
Canada notes	1,624	1,624
Total	26,913	25,634
Total unmatured debt	466,957	455,718

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July 1998



The Fiscal Monitor

Table 3

Budgetary expenditures

	May		April to May		Per cent change
	1997	1998	1997-98	1998-99	
	(millions of dollars)				(%)
Transfer payments to:					
Persons					
Elderly benefits	1,828	1,878	3,617	3,699	2.3
Employment insurance benefits	933	881	2,067	1,995	-3.5
Total	2,761	2,759	5,684	5,694	0.2
Other levels of government					
Canada Health and Social Transfer	1,042	1,042	2,083	2,083	0.0
Fiscal transfers	898	897	1,536	1,539	0.2
Alternative Payments for Standing Programs	-178	-188	-355	-375	5.6
Total	1,762	1,751	3,264	3,247	-0.5
Direct program spending					
Subsidies and other transfers					
Agriculture	12	9	15	14	-6.7
Foreign Affairs	135	65	184	166	-9.8
Health	63	62	132	146	10.6
Human Resources Development	140	170	192	228	18.8
Indian and Northern Development	259	217	975	995	2.1
Industry and Regional Development	84	60	163	132	-19.0
Veterans Affairs	116	113	228	227	-0.4
Other	185	167	385	358	-7.0
Total	994	863	2,274	2,266	-0.4
Payments to Crown corporations					
Canadian Broadcasting Corporation	71	23	183	170	-7.1
Canada Mortgage and Housing Corporation	109	175	249	300	20.5
Other	70	57	207	174	-15.9
Total	250	255	639	644	0.8
Operating and capital expenditures					
Defence	620	559	975	904	-7.3
All other departmental expenditures	1,066	1,138	2,002	2,033	1.5
Total	1,686	1,697	2,977	2,937	-1.3
Total direct program spending	2,930	2,815	5,890	5,847	-0.7
Total program expenditures	7,453	7,324	14,838	14,788	-0.3
Public debt charges	3,373	3,593	6,840	7,046	3.0
Total budgetary expenditures	10,826	10,917	21,678	21,834	0.7
Memorandum item:					
Total transfers	5,517	5,372	11,222	11,207	-0.1

Table 4

The budgetary balance and financial requirements/surplus

	May		April to May	
	1997	1998	1997-98	1998-99
	(millions of dollars)			
Deficit (-)/surplus (+)	-37	1,435	1,412	3,019
Loans, investments and advances				
Crown corporations	210	26	-43	127
Other	43	112	65	205
Total	253	138	22	332
Specified purpose accounts				
Canada Pension Plan Account	691	850	1,204	1,449
Superannuation accounts	512	485	918	1,050
Other	-16	15	-42	-25
Total	1,187	1,350	2,080	2,474
Other transactions	1,618	2,699	-3,487	-2,475
Total non-budgetary transactions	3,058	4,187	-1,385	331
Financial requirements/surplus (excluding foreign exchange transactions)	3,021	5,622	27	3,350
Foreign exchange transactions	-1,698	1,178	1,891	2,465
Total financial requirements/surplus	1,323	6,800	1,918	5,815

Table 5

Financial requirements/surplus and unmatured debt transactions

	May		April to May	
	1997	1998	1997-98	1998-99
	(millions of dollars)			
Total financial requirements/surplus	1,323	6,800	1,918	5,815
Unmatured debt transactions				
Payable in Canadian dollars				
Marketable bonds	2,824	3,900	2,824	3,900
Canada Savings Bonds	-298	-365	-587	-994
Treasury bills	-5,900	-8,900	-9,600	-13,100
Other	-2	56	-3	55
Subtotal	-3,376	-5,309	-7,366	-10,139
Less: Government's holdings of unmatured debt	113	89	256	179
Total	-3,263	-5,220	-7,110	-9,960
Payable in foreign currencies				
Marketable bonds	0	0	0	0
Notes and loans	0	0	0	0
Canada bills	39	-462	-902	-1,279
Canada notes			-305	
Total	39	-462	-1,207	-1,279
Total unmatured debt transactions	-3,224	-5,682	-8,317	-11,239
Change in cash balance	-1,901	1,118	-6,399	-5,424

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The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for June 1998

Budgetary surplus of \$2.7 billion recorded in June 1998

A budgetary surplus of \$2.7 billion was recorded in June 1998, unchanged from the restated estimate for June 1997. A small increase in budgetary revenues and decline in program spending were offset by an increase in public debt charges.

Within budgetary revenues, increases in corporate and other income taxes, coupled with higher excise taxes and duties were largely offset by declines in the other components. Within program spending, declines in employment insurance benefits and subsidies and other transfers more than offset increases in elderly benefits, payments to Crown corporations and in departmental operating and capital expenditures. The increase in public debt charges was due to higher average effective interest rates, reflecting changes in the composition of the government's interest-bearing debt.

Year-to-date: budgetary surplus of \$5.7 billion

Over the first three months (April to June) of the 1998-99 fiscal year, the budgetary surplus was estimated at \$5.7 billion, up \$1.6 billion from the surplus of \$4.1 billion estimated for the same period last year. This increase was primarily attributable to the continued strength in the economy. Budgetary revenues were up \$1.8 billion (4.9 per cent). Program spending declined \$0.1 billion (0.4 per cent). In contrast, public debt charges were up \$0.3 billion, or 3.0 per cent.

Year-to-date: financial surplus of \$5.8 billion

The financial surplus amounted to \$5.8 billion in the first three months of 1998-99, compared to a surplus of \$0.6 billion in the same period last year. This year-over-year improvement of \$5.2 billion was attributable to a \$2.6 billion change in the net source of funds from foreign exchange transactions, \$1.6 billion from the improvement in the budgetary balance and \$1.0 billion from the lower non-budgetary transactions requirement.

With this financial surplus and a reduction in cash balances of \$4.0 billion, the government retired \$9.8 billion of market debt in the first three months of 1998-99.



Department of Finance
Canada

Ministère des Finances
Canada

Canada

The Fiscal Monitor

Table 1

Summary statement of transactions

	June		April to June	
	1997	1998	1997-98	1998-99
	(millions of dollars)			
Budgetary transactions				
Revenue	13,861	13,927	36,951	38,779
Program spending	-7,807	-7,761	-22,646	-22,548
Operating surplus	6,054	6,166	14,305	16,231
Public debt charges	-3,367	-3,464	-10,207	-10,510
Deficit/surplus	2,687	2,702	4,098	5,721
Non-budgetary transactions	-3,196	-3,930	-4,581	-3,597
Financial requirements/surplus (excluding foreign exchange transactions)	-509	-1,228	-483	2,124
Foreign exchange transactions	-844	1,163	1,048	3,629
Total financial requirements/surplus	-1,353	-65	565	5,753
Unmatured debt transactions	2,360	1,469	-5,957	-9,770
Change in cash balances	1,007	1,404	-5,392	-4,017

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Budgetary revenues up \$1.8 billion in April 1998 to June 1998 period

Over the April to June 1998 period, budgetary revenues were up \$1.8 billion, or 4.9 per cent, on a year-over-year basis. This increase primarily reflects the continuing strength in the economy.

- Personal income tax collections were up \$1.3 billion, or 7.3 per cent. This increase was due to higher taxes paid on filing, related to the strong income growth in the 1997 taxation year, and continued increases in receipts from monthly deductions from employment income, due to the increases in the number of people employed. The results to date were dampened somewhat by higher personal income refunds related to the 1997 taxation year, as the number of tax returns processed to the end of June 1998 was significantly more than in the same period last year. This was especially applicable in June 1998, as higher refunds depressed net collections.
- Corporate income tax collections were up \$0.7 billion, or 16.8 per cent, reflecting lower refunds and continued strength in corporate

profits in certain sectors of the economy. In addition, part of the increase was due to the monthly tax remittance procedures for corporations. Corporations are required to file monthly installments based on either their last year's actual tax liability or their current year's estimated tax liability. Corporations have 60 days after their year end to make settlement payments for any amounts outstanding. This results in over 30 per cent of corporate income tax collections being received in the months of February and March. Monthly installments for 1997 were largely based on 1996 liabilities. However, tax liabilities for 1997 were significantly higher than in 1996, as collections in the settlement period (February and March 1998) were up nearly 30 per cent over the 1996 settlement period. As a result, installment payments for 1997 understated the actual tax liability for the year as a whole. Installments for 1998 have been increased to reflect 1997 tax liabilities, which accounts for part of the current increase in net collections.

Table 2

Budgetary revenues

	June		April to June		Per cent change
	1997	1998	1997-98	1998-99	
	(millions of dollars)				(%)
Income taxes					
Personal income tax	6,635	6,562	17,763	19,065	7.3
Corporate income tax	1,578	1,831	4,038	4,716	16.8
Other income tax revenue	154	184	574	613	6.8
Total income tax	8,367	8,577	22,375	24,394	9.0
Employment insurance premium revenues	1,862	1,775	5,564	5,318	-4.4
Excise taxes and duties					
Goods and services tax	1,987	2,050	4,814	5,097	5.9
Customs import duties	109	185	488	504	3.3
Sales and excise taxes	816	804	2,157	2,118	-1.8
Total excise taxes and duties	2,912	3,039	7,459	7,719	3.5
Total tax revenues	13,141	13,391	35,398	37,431	5.7
Non-tax revenues	720	536	1,553	1,348	-13.2
Total budgetary revenues	13,861	13,927	36,951	38,779	4.9

- Employment insurance premium revenues were down \$0.2 billion, or 4.4 per cent, attributable to the decline in premium rates. The employee premium rate for 1998 is \$2.70 (per \$100 of insurable earnings), compared to a rate of \$2.90 for 1997 (with a comparable decline in the employer rate).
- Net GST collections were up \$0.3 billion, or 5.9 per cent, consistent with the growth in consumer expenditures subject to this tax.
- Customs import duties were up slightly, as the growth in imports more than offset the impact of tariff reductions. Other excise taxes and duties were down slightly, primarily due to the reduction in the air transport tax effective January 1, 1998.
- Non-tax revenues, consisting of return on investments and other non-tax revenues, such as fees and proceeds from sales, among others, were down \$0.2 billion or 13.2 per cent. Changes in this component are quite volatile reflecting the timing of receipts.

Program spending down slightly in April to June 1998 period

Program spending declined by \$0.1 billion, or 0.4 per cent, in the April to June 1998 period, compared to the same period last year. Most of this decline was concentrated in direct program spending, reflecting the impact of Program Review reductions announced in the 1996 budget.

Major transfers to persons were virtually unchanged, as lower employment insurance benefits were largely offset by high elderly benefit payments.

- The higher elderly benefits reflect an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation.
- The decline in employment insurance benefit payments was primarily due to a decline in the number of beneficiaries, reflecting the decline in the number of unemployed.

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Major transfers to other levels of government were down slightly, solely due to recoveries under Alternative Payments for Standing Programs.

- Cash entitlements under the Canada Health and Social Transfer (CHST) were unchanged as current legislation prevents the fiscal year cash entitlement for the period 1997-98 to 2002-03 from falling below \$12.5 billion. However, total CHST entitlements consist of both cash entitlements and tax point transfers. With this cash entitlement floor and a rising value in the tax point transfers, total entitlements under the CHST are increasing.

Fiscal transfers, primarily consisting of payments under the Equalization program and transfers to the territories were virtually unchanged from the same period last year.

Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, declined by \$0.1 billion in the April to June 1998 period, compared to the same period last year. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. Developments in this component are affected by the timing of payments and the effect of the Program Review reductions announced in the 1996 budget.

Public debt charges up \$0.3 billion in April to June 1998 period

The increase in public debt charges primarily reflected a slight increase in the average effective interest rate due to the changes in the composition of interest-bearing debt. Although the stock of market debt (unmatured debt) was lower at the end of June 1998 than in the same period last year, the overall stock of interest-bearing debt was virtually unchanged, reflecting the increase in obligations to the public service pension plans. The latter is credited with the long-term Government of Canada bond rate.

Financial surplus of \$5.8 billion in April to June 1998 period

Financial surplus/requirements measure the difference between cash coming in to the government and cash going out. The financial surplus differs from the budgetary surplus, as the former includes transactions in loans, investments, and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. In addition, the budgetary surplus is largely presented on the accrual basis of accounting. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$3.6 billion in the April to June 1998 period, compared to a net requirement of \$4.6 billion in the same period last year. The lower requirement this year primarily reflected a higher source of funds in the superannuation accounts.

With a budgetary surplus of \$5.7 billion and a net requirement of \$3.6 billion in non-budgetary transactions, there was a financial surplus, excluding foreign exchange transactions, of \$2.1 billion in the first three months of 1998-99. This compares to a net requirement of \$0.5 billion in the same period last year.

The purpose of the Foreign Exchange Account is to promote order and stability in the foreign exchange market. It fulfills this function by buying foreign exchange (selling Canadian currency) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure. In the April to June 1998 period, foreign exchange transactions provided the government with a net source of funds amounting to \$3.6 billion, compared to \$1.0 billion in the same period last year.

As a result, there was a financial surplus, including foreign exchange transactions, of \$5.8 billion in the first three months of 1998-99, compared to a surplus of \$0.6 billion a year earlier.

In the first three months of 1998-99, the federal government retired \$9.8 billion of its market debt, primarily Treasury bills.

Table 3

Budgetary expenditures

	June		April to June		Per cent change
	1997	1998	1997-98	1998-99	
	(millions of dollars)				(%)
Transfer payments to:					
Persons					
Elderly benefits	1,853	1,868	5,470	5,567	1.8
Employment insurance benefits	846	804	2,914	2,799	-3.9
Total	2,699	2,672	8,384	8,366	-0.2
Other levels of government					
Canada Health and Social Transfer	1,042	1,042	3,125	3,125	0.0
Fiscal transfers	776	776	2,311	2,315	0.2
Alternative Payments for Standing Programs	-178	-186	-533	-560	5.1
Total	1,640	1,632	4,903	4,880	-0.5
Direct program spending					
Subsidies and other transfers					
Agriculture	59	42	75	56	-25.3
Foreign Affairs	164	98	348	263	-24.4
Health	66	94	197	239	21.3
Human Resources Development	211	208	403	436	8.2
Indian and Northern Development	313	312	1,288	1,306	1.4
Industry and Regional Development	104	105	267	238	-10.9
Veterans Affairs	114	112	342	339	-0.9
Other	234	144	619	502	-18.9
Total	1,265	1,115	3,539	3,379	-4.5
Payments to Crown corporations					
Canadian Broadcasting Corporation	66	60	249	230	-7.6
Canada Mortgage and Housing Corporation	115	157	364	457	25.5
Other	86	70	292	244	-16.4
Total	267	287	905	931	2.9
Operating and capital expenditures					
Defence	683	679	1,658	1,583	-4.5
All other departmental expenditures	1,253	1,376	3,257	3,409	4.7
Total	1,936	2,055	4,915	4,992	1.6
Total direct program spending	3,468	3,457	9,359	9,302	-0.6
Total program expenditures	7,807	7,761	22,646	22,548	-0.4
Public debt charges	3,367	3,464	10,207	10,510	3.0
Total budgetary expenditures	11,174	11,225	32,853	33,058	0.6
Memorandum item:					
Total transfers	5,604	5,419	16,826	16,625	-1.2

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Table 4

The budgetary balance and financial requirements/surplus

	June		April to June	
	1997	1998	1997-98	1998-99
	(millions of dollars)			
Deficit (-)/surplus (+)	2,687	2,702	4,098	5,721
Loans, investments and advances				
Crown corporations	-31	28	-74	155
Other	-58	-190	7	15
Total	-89	-162	-67	170
Specified purpose accounts				
Canada Pension Plan Account	-35	-451	1,169	998
Superannuation accounts	-126	591	792	1,642
Other	-168	-21	-210	-45
Total	-329	119	1,751	2,595
Other transactions	-2,778	-3,887	-6,265	-6,362
Total non-budgetary transactions	-3,196	-3,930	-4,581	-3,597
Financial requirements/surplus (excluding foreign exchange transactions)	-509	-1,228	-483	2,124
Foreign exchange transactions	-844	1,163	1,048	3,629
Total financial requirements/surplus	-1,353	-65	565	5,753

Table 5

Financial requirements/surplus and unmatured debt transactions

	June		April to June	
	1997	1998	1997-98	1998-99
	(millions of dollars)			
Total financial requirements/surplus	-1,353	-65	565	5,753
Unmatured debt transactions				
Payable in Canadian dollars				
Marketable bonds	6,614	6,323	9,438	10,223
Canada Savings Bonds	-340	-544	-927	-1,537
Treasury bills	-5,400	-4,500	-15,000	-17,600
Other	450	1,001	447	1,056
Subtotal	1,324	2,280	-6,042	-7,858
Less: Government's holdings of unmatured debt	106	93	362	272
Total	1,430	2,373	-5,680	-7,586
Payable in foreign currencies				
Marketable bonds	0	0	0	0
Notes and loans	0	0	0	0
Canada bills	625	-123	-277	-1,403
Canada notes	305	-781		-781
Total	930	-904	-277	-2,184
Total unmatured debt transactions	2,360	1,469	-5,957	-9,770
Change in cash balance	1,007	1,404	-5,392	-4,017

Table 6

Cash, unmatured debt and debt balances

	March 31, 1998	June 30, 1998
	(millions of dollars)	
Cash balances at end of period		
In Canadian dollars	10,243	6,269
In foreign currencies	49	2
Total cash balance	10,292	6,271
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	294,541	304,764
Treasury bills	112,300	94,700
Canada Savings Bonds	30,593	29,056
Other	3,456	4,512
Subtotal	440,890	433,032
Less: Government's holdings of unmatured debt	846	574
Total	440,044	432,458
Payable in foreign currencies		
Marketable bonds	15,869	15,869
Notes and loans	0	0
Canada bills	9,420	8,018
Canada notes	1,624	843
Total	26,913	24,730
Total unmatured debt	466,957	457,188

The Debt Servicing and Reduction Account

In June 1991, legislation to establish the Debt Servicing and Reduction Account received Royal Assent. As a result, effective April 1, 1991, all goods and services tax revenue net of the applicable input tax credits, rebates, and the low-income credit, along with the net proceeds from the sale of Crown corporations and gifts to the Crown identified for debt reduction must, by law, go directly to the Debt Servicing and Reduction Account. The funds in this Account

can only be used to pay the cost of servicing the public debt and ultimately to reduce the debt. The Account is audited on an annual basis by the Auditor General of Canada. In his "Observations" on the 1996-97 financial statements, the Auditor General questioned the need for this Account, given the fundamental concept of the Consolidated Revenue Fund. The government has indicated that it would review this issue.

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Table 7

Debt Servicing and Reduction Account (DSRA)

	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
	(millions of dollars)					
Gross GST collected	29,564	30,516	32,652	36,715	38,048	40,733
Less:						
Refunds and rebates	11,330	12,138	14,271	17,112	18,874	19,782
Quarterly low-income tax credit	2,262	2,503	2,685	2,816	2,799	2,872
Net GST	15,168	14,868	15,696	16,787	16,374	18,079
GST penalties and interest received	19	71	90	129	135	159
Gains from wind-up of interest in Crown corporations/disposal of shares in Crown corporations	2	110			325	
Gifts to the Crown	0.4	0.1	0.2	0.5	0.3	0.3
Proceeds to the DSRA	15,190	15,050	15,786	16,916	16,835	18,238

Source: Public Accounts of Canada – 1997

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The Fiscal Monitor

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Highlights of financial results for July 1998

Budgetary surplus of \$1.6 billion recorded in July 1998

A budgetary surplus of \$1.6 billion was recorded in July 1998, down slightly from the surplus of \$1.9 billion reported for July 1997. The decline in the monthly surplus, on a year-over-year basis, was attributable to an increase in program spending (up 3.3 per cent) and higher corporate and goods and services tax (GST) refunds.

Budgetary revenues were virtually unchanged, as the higher refunds and a decline in employment insurance premium revenues offset a strong advance in personal income tax collections.

- Personal income tax collections were up 13.4 per cent in July 1998 over July 1997, reversing the year-over-year decline reported in June 1998. Part of the increase in July 1998 was attributable to the timing of receipts between June and July.
- Both corporate income tax and GST collections were down (14.4 per cent and 14.6 per cent respectively) reflecting higher refunds being paid in July 1998 than in the same period last year.
- Employment insurance premium revenues were down 4.6 per cent, reflecting the decline in premium rates for 1998.

The increase in program spending was primarily attributable to higher elderly benefit and employment insurance benefit payments.

- Elderly benefit payments were up 6 per cent, reflecting an increase in the number of beneficiaries and higher average benefits, which are indexed to inflation.

- Employment insurance benefit payments were up 6.5 per cent, as higher payments for employment and support measures offset declines in regular benefit payments. The decline in the latter was attributable to fewer people being unemployed.
- Transfers to other levels of government and direct program spending were marginally higher.

Public debt charges were up marginally, due to an increase in the average effective interest rate on the government's interest-bearing debt, reflecting both the impacts of higher short-term rates and changes in the composition of the government's interest-bearing debt.

Year-to-date: budgetary surplus up \$1.4 billion

Over the first four months (April to July) of the 1998-99 fiscal year, the budgetary surplus was estimated at \$7.4 billion, up \$1.4 billion from the surplus of \$6.0 billion estimated for the same period last year. Budgetary revenues were up \$1.8 billion (3.7 per cent). Program spending was up \$0.2 billion (0.5 per cent), while public debt charges were up \$0.3 billion (2.4 per cent).

Within budgetary revenues:

- Personal income tax collections were up \$2.1 billion, or 8.8 per cent. This increase was due to higher taxes paid on filing, related to the strong income growth in the 1997 taxation year, and continued increases in receipts from monthly deductions from employment income, due to the increases in the number of people employed.
- Corporate income tax collections were up \$0.4 billion, or 7.0 per cent, reflecting lower refunds and higher gross collections, due to continued strength in corporate profits in certain sectors of the economy.



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Table 1

Summary statement of transactions¹

	July		April to July	
	1997	1998	1997-98	1998-99
(millions of dollars)				
Budgetary transactions				
Revenues	13,040	13,052	49,992	51,831
Program spending	-7,707	-7,958	-30,353	-30,507
Operating balance	5,333	5,094	19,639	21,324
Public debt charges	-3,423	-3,448	-13,629	-13,958
Deficit/surplus	1,910	1,646	6,010	7,366
Non-budgetary transactions	-238	-1,543	-4,818	-5,140
Financial balance (excluding foreign exchange transactions)	1,672	103	1,192	2,226
Foreign exchange transactions	2,922	-2,420	3,970	1,208
Net financial balance	4,594	-2,317	5,162	3,434
Net increase (+)/decrease (-) in borrowings	-4,919	880	-10,875	-8,892
Net change in cash balances	-325	-1,437	-5,713	-5,458

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

¹ There has been some confusion concerning the two main measures of the government's fiscal position: "budgetary balance" and "financial balance". The difference is explained in the accompanying text.

- Employment insurance premium revenues were down \$0.3 billion, or 4.4 per cent, attributable to the decline in premium rates. The employee premium rate (per \$100 of insurable earnings) was reduced from \$2.90 for 1997 to \$2.70 for 1998 (with a corresponding decline in the employer rate).
- Net GST collections were virtually unchanged from the same period last year, as higher refunds and rebates offset a strong increase in gross collections.
- Customs import duties were up slightly, as the growth in imports more than offset the impact of tariff reductions. Other excise taxes and duties were up marginally, as the reduction in the air transportation tax, effective January 1, 1998, largely offset increases in energy and tobacco taxes and duties.
- Non-tax revenues, consisting of return on investments and other non-tax revenues, such as fees and proceeds from sales, among others, were down \$0.4 billion or 18.3 per cent. Changes in this component are quite volatile reflecting the timing of receipts.

Within program spending:

- Major transfers to persons were up \$0.1 billion, as higher elderly benefit payments offset a decline in employment insurance benefit payments. The decline in employment insurance benefit payments was due to a decline in the number of beneficiaries, reflecting the decline in the number of unemployed.
- Major transfers to other levels of government were up slightly, due to higher equalization transfers. Cash entitlements under the Canada Health and Social Transfer (CHST) were unchanged as current legislation prevents the fiscal year cash entitlement for the period 1997-98 to 2002-03 from falling below \$12.5 billion. However, total CHST entitlements consist of both cash entitlements and tax point transfers. With this cash entitlement floor and a rising value in the tax point transfers, total entitlements under the CSHT are increasing.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, was virtually unchanged, on a year-over-year basis.

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Table 2

Budgetary revenues

	July		April to July		Per cent change
	1997	1998	1997-98	1998-99	
	(millions of dollars)				(%)
Income taxes					
Personal income tax	5,865	6,649	23,627	25,715	8.8
Corporate income tax	1,850	1,584	5,887	6,301	7.0
Other income tax revenue	300	220	875	833	-4.8
Total income tax	8,015	8,453	30,389	32,849	8.1
Employment insurance premium revenues	1,815	1,732	7,378	7,051	-4.4
Excise taxes and duties					
Goods and services tax	1,809	1,545	6,624	6,642	0.3
Customs import duties	222	251	710	756	6.5
Sales and excise taxes	662	724	2,819	2,843	0.9
Total excise taxes and duties	2,693	2,520	10,153	10,241	0.9
Total tax revenues	12,523	12,705	47,920	50,141	4.6
Non-tax revenues	517	347	2,072	1,690	-18.4
Total budgetary revenues	13,040	13,052	49,992	51,831	3.7

This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. The timing of payments and the effect of the Program Review reductions announced in the 1996 budget affect developments in this component.

The increase in public debt charges primarily reflected a slight increase in the average effective interest rate due to the changes in the composition of interest-bearing debt and increases in short-term interest rates.

Financial surplus of \$3.4 billion

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance only includes those activities over which the government has legislative control.

In contrast, the financial balance – requirements/surplus – measures the difference between cash coming in to the government and cash going out. The financial balance differs from the budgetary balance,

as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions. Finally, the financial balance also includes net foreign exchange transactions.

Non-budgetary transactions resulted in a net requirement of \$5.1 billion in the April to July 1998 period, compared to a net requirement of \$4.8 billion in the same period last year. As a result, there was a financial surplus (excluding foreign exchange transactions) of \$2.2 billion in the first four months of 1998-99, up from \$1.2 billion in the same period last year.

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. It fulfils this function by

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Table 6

Cash, unmatured debt and debt balances

	March 31, 1998	July 31, 1998
	(millions of dollars)	
Cash balances at end of period		
In Canadian dollars	10,243	4,825
In foreign currencies	49	9
Total cash balances	10,292	4,834
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	294,541	304,764
Treasury bills	112,300	91,600
Canada Savings Bonds	30,593	28,816
Other	3,456	5,027
Subtotal	440,890	430,207
<i>Less: Government's holdings of unmatured debt</i>	<i>846</i>	<i>486</i>
Total	440,044	429,721
Payable in foreign currencies		
Marketable bonds	15,869	19,363
Notes and loans	0	0
Canada bills	9,420	8,205
Canada notes	1,624	751
Total	26,913	28,319
Total unmatured debt	466,957	458,040

buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions. Taking all of these factors into account, in the first four months of 1998-99, there was a net source of funds of \$1.2 billion from foreign exchange transactions, down from \$3.9 billion in the same period last year.

With a budgetary surplus of \$7.4 billion, a net requirement of \$5.1 billion from non-budgetary transactions, and a net source of funds of \$1.2 billion from foreign exchange transactions, the net financial surplus, over the April to July 1998 period, amounted to \$3.4 billion, compared to \$5.2 billion in the same period last year.

With this financial surplus, coupled with a reduction in the cash balances of \$5.4 billion, the government retired \$8.8 billion of market debt in the first four months of 1998-99.



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Table 3

Budgetary expenditures

	July		April to July		Per cent
	1997	1998	1997-98	1998-99	change
	(millions of dollars)				(%)
Transfer payments to:					
Persons					
Elderly benefits	1,820	1,929	7,290	7,497	2.8
Employment insurance benefits	820	873	3,734	3,671	-1.7
Total	2,640	2,802	11,024	11,168	1.3
Other levels of government					
Canada Health and Social Transfer	1,042	1,042	4,167	4,167	0.0
Fiscal transfers	768	817	3,079	3,132	1.7
Alternative Payments for Standing Programs	-178	-187	-710	-747	5.2
Total	1,632	1,672	6,536	6,552	0.2
Direct program spending					
Subsidies and other transfers					
Agriculture	37	74	112	130	16.1
Foreign Affairs	110	107	458	370	-19.2
Health	64	84	262	324	23.7
Human Resources Development	7	73	409	509	24.4
Indian and Northern Development	281	271	1,569	1,578	0.6
Industry and Regional Development	93	105	360	343	-4.7
Veterans Affairs	117	114	459	453	-1.3
Other	183	185	802	686	-14.5
Total	892	1,013	4,431	4,393	-0.9
Payments to Crown corporations					
Canadian Broadcasting Corporation	65	60	314	290	-7.6
Canada Mortgage and Housing Corporation	156	140	520	597	14.8
Other	68	121	360	365	1.4
Total	289	321	1,194	1,252	4.9
Operating and capital expenditures					
Defence	755	715	2,413	2,298	-4.8
All other departmental expenditures	1,499	1,435	4,755	4,844	1.9
Total	2,254	2,150	7,168	7,142	-0.4
Total direct program spending	3,435	3,484	12,793	12,787	0.0
Total program expenditures	7,707	7,958	30,353	30,507	0.5
Public debt charges	3,423	3,448	13,629	13,958	2.4
Total budgetary expenditures	11,130	11,406	43,982	44,465	1.1
Memorandum item:					
Total transfers	5,164	5,487	21,991	22,113	0.6

Table 4

The budgetary balance and financial balance

	July		April to July	
	1997	1998	1997-98	1998-99
	(millions of dollars)			
Budgetary balance: deficit (-)/surplus (+)	1,910	1,646	6,010	7,366
Loans, investments and advances				
Crown corporations	157	392	83	547
Other	62	38	69	53
Total	219	430	152	600
Specified purpose accounts				
Canada Pension Plan Account	-479	-514	690	484
Superannuation accounts	339	-414	1,131	1,228
Other	15	-13	-195	-57
Total	-125	-941	1,626	1,655
Other transactions	-332	-1,032	-6,596	-7,395
Total non-budgetary transactions	-238	-1,543	-4,818	-5,140
Financial balance (excluding foreign exchange transactions)	1,672	103	1,192	2,226
Foreign exchange transactions	2,922	-2,420	3,970	1,208
Net financial balance	4,594	-2,317	5,162	3,434

Table 5

Net financial balance and net borrowings

	July		April to July	
	1997	1998	1997-98	1998-99
	(millions of dollars)			
Net financial balance	4,594	-2,317	5,162	3,434
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	-4,200	0	5,238	10,223
Canada Savings Bonds	-280	-283	-1,207	-1,821
Treasury bills	1,700	-3,100	-13,300	-20,700
Other	386	515	833	1,571
Subtotal	-2,394	-2,868	-8,436	-10,727
Less: Government's holdings of unmatured debt	167	94	530	365
Total	-2,227	-2,774	-7,906	-10,362
Payable in foreign currencies				
Marketable bonds	-776	3,494	-776	3,494
Notes and loans	0	0	0	0
Canada bills	-1,590	252	-1,867	-1,151
Canada notes	-326	-92	-326	-873
Total	-2,692	3,654	-2,969	1,470
Net change in borrowings	-4,919	880	-10,875	-8,892
Change in cash balances	-325	-1,437	-5,713	-5,458

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The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for August 1998

Budgetary surplus of \$0.6 billion recorded in August 1998

A budgetary surplus of \$0.6 billion was recorded in August 1998, compared to a budgetary deficit of \$0.2 billion in August 1997. This improvement in the budgetary balance, on a year-over-year basis, was attributable to an increase in budgetary revenues (up 8.8 per cent) and a decline in public debt charges (down 8.4 per cent). Program spending increased by 5.9 per cent.

The increase in budgetary revenues in August 1998, on a year-over-year basis, was primarily attributable to higher goods and services tax (GST) and corporate income tax collections.

- GST collections were up 34 per cent, reversing the decline recorded in the previous month. In the last few months, the fluctuations in collections, on a year-over-year basis, have been influenced by the timing of refunds. In August 1998, refunds were down sharply.
- Corporate income tax collections were up 19.1 per cent, reflecting an increase in gross remittances and a decline in refunds.

The decline in public debt charges was due to adjustments for overstatements in previous months.

The increase in program spending was primarily attributable to higher transfers to persons and direct program spending.

- The increase in transfers to persons (up 3.9 per cent) was largely attributable to the timing of employment insurance benefit cheques.
- The increase in direct program spending (up 10.2 per cent) primarily reflected the timing of subsidy and other transfer payments and non-salary departmental expenditures.

Year-to-date: budgetary surplus up \$2.1 billion

Over the first five months (April to August) of the 1998-99 fiscal year, the budgetary surplus was estimated at \$8.0 billion, up \$2.1 billion from the same period last year. Budgetary revenues were up \$2.8 billion (4.6 per cent), program spending was up \$0.6 billion (1.6 per cent), while public debt charges were virtually unchanged.

Within budgetary revenues:

- Personal income tax collections were up \$2.2 billion, or 7.8 per cent. This increase was due to higher taxes paid on filing, related to the strong income growth in the 1997 taxation year, and continued increases in receipts from monthly deductions from employment income, due to the increases in the number of people employed.
- Corporate income tax collections were up \$0.6 billion, or 9.0 per cent, reflecting lower refunds and higher gross collections due to continued strength in corporate profits in certain sectors of the economy.
- Employment insurance premium revenues were down \$0.4 billion, or 4.4 per cent, attributable to the decline in premium rates. The employee premium rate (per \$100 of insurable earnings) was reduced from \$2.90 for 1997 to \$2.70 for 1998 (with a corresponding decline in the employer rate).
- GST collections were up \$0.5 billion, or 6.1 per cent, in line with the growth in consumer demand.
- Customs import duties were up slightly as the growth in imports more than offset the impact of tariff reductions. Other excise taxes and duties were up 2.6 per cent as the reduction in the air transportation tax, effective January 1, 1998, dampened the impact of increases in energy and tobacco taxes and duties.



The Fiscal Monitor

Table 1

Summary statement of transactions¹

	August		April to August	
	1997	1998	1997-98	1998-99
	(millions of dollars)			
Budgetary transactions				
Revenues	10,891	11,845	60,883	63,676
Program spending	-7,650	-8,099	-38,003	-38,606
Operating balance	3,241	3,746	22,880	25,070
Public debt charges	-3,410	-3,124	-17,039	-17,082
Deficit/surplus	-169	622	5,841	7,988
Non-budgetary transactions	467	1,730	-4,353	-3,410
Financial balance (excluding foreign exchange transactions)	298	2,352	1,488	4,578
Foreign exchange transactions	-97	5,681	3,873	6,889
Net financial balance	201	8,033	5,361	11,467
Net increase (+)/decrease (-) in borrowings	-153	1,577	-11,028	-7,314
Net change in cash balances	48	9,610	-5,667	4,153

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

¹ There has been some confusion concerning the two main measures of the government's fiscal position: "budgetary balance" and "financial balance". The difference is explained in the accompanying text.

- Non-tax revenues, consisting of a return on investments and other non-tax revenues such as fees and proceeds from sales, among others, were down \$0.3 billion or 13.3 per cent. This component of revenues is quite volatile, reflecting the timing of receipts.

Within program spending:

- Major transfers to persons were up \$0.2 billion, primarily due to higher elderly benefit payments. Employment benefit payments were virtually unchanged as the impact of the decline in the number of beneficiaries, reflecting the decline in the number of unemployed, was offset by the timing of payments in the month of August.
- Major transfers to other levels of government were virtually unchanged. Cash entitlements under the Canada Health and Social Transfer (CHST) were unchanged as current legislation prevents the fiscal year cash entitlement for the period 1997-98 to 2002-03 from falling below \$12.5 billion. However, total CHST entitlements consist of both cash entitlements and tax point transfers. With this

cash entitlement floor and a rising value in tax point transfers, total entitlements under the CSHT are increasing. Fiscal transfers were up slightly but this was largely offset by higher recoveries under Alternative Payments for Standing Programs.

- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, was up \$0.3 billion, or 2.1 per cent. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. The timing of payments and the effect of the Program Review reductions announced in the 1996 budget affect developments in this component.

Public debt charges were virtually unchanged as declines in the overall stock of interest-bearing debt were offset by a slight increase in the average effective interest rate due to changes in the composition of interest-bearing debt and increases in short-term interest rates.

The Fiscal Monitor

Table 2

Budgetary revenues

	August		April to August		Per cent change
	1997	1998	1997-98	1998-99	
	(millions of dollars)				(%)
Income taxes					
Personal income tax	5,199	5,360	28,826	31,074	7.8
Corporate income tax	1,160	1,381	7,047	7,682	9.0
Other income tax revenue	150	222	1,025	1,055	2.9
Total income tax	6,509	6,963	36,898	39,811	7.9
Employment insurance premium revenues	1,677	1,607	9,055	8,658	-4.4
Excise taxes and duties					
Goods and services tax	1,396	1,870	8,020	8,512	6.1
Customs import duties	319	277	1,029	1,033	0.4
Sales and excise taxes	708	780	3,528	3,621	2.6
Total excise taxes and duties	2,423	2,927	12,577	13,166	4.7
Total tax revenues	10,609	11,497	58,530	61,635	5.3
Non-tax revenues	282	348	2,353	2,041	-13.3
Total budgetary revenues	10,891	11,845	60,883	63,676	4.6

Year-to-date: financial surplus of \$4.6 billion

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance only includes those activities over which the government has legislative control.

In contrast, financial requirements/surplus measure the difference between cash coming in to the government and cash going out. Financial requirements/surplus differ from the budgetary balance as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$3.4 billion in the April to August 1998 period, compared to a net requirement of \$4.4 billion in the same period last year. As a result, there was a financial surplus (excluding foreign exchange transactions) of \$4.6 billion in the first five months of 1998-99, up from \$1.5 billion in the same period last year.

Year-to-date: net financial balance of \$11.5 billion/net borrowings down \$7.3 billion

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. It fulfils this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is

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Table 6

Cash, unmatured debt and debt balances

	March 31, 1998	August 31, 1998
	(millions of dollars)	
Cash balances at end of period		
In Canadian dollars	3,541	14,374
In foreign currencies	156	70
Total cash balances	3,697	14,444
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	294,541	89,500
Treasury bills	112,300	28,618
Canada Savings Bonds	30,593	28,816
Other	3,456	5,003
Subtotal	440,890	430,185
Less: Government's holdings of unmatured debt	846	398
Total	440,044	429,787
Payable in foreign currencies		
Marketable bonds	15,869	19,438
Notes and loans	0	0
Canada bills	9,420	9,638
Canada notes	1,624	751
Total	26,913	29,827
Total unmatured debt	466,957	459,614

downward pressure. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions. Taking all of these factors into account, in the first five months of 1998-99, there was a net source of funds of \$6.9 billion from foreign exchange transactions, up from a source of \$3.9 billion in the same period last year.

With a budgetary surplus of \$8.0 billion, a net requirement of \$3.4 billion from non-budgetary transactions, and a net source of funds of \$6.9 billion from foreign exchange transactions, the net financial balance recorded a surplus of \$11.5 billion over the April to August 1998 period, compared to \$5.4 billion in the same period last year.

With this net financial balance, the government retired \$7.3 billion of market debt in the first five months of 1998-99 and increased its cash balances by \$4.2 billion.



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Table 3

Budgetary expenditures

	August		April to August		Per cent
	1997	1998	1997-98	1998-99	change
	(millions of dollars)				(%)
Transfer payments to:					
Persons					
Elderly benefits	1,858	1,888	9,148	9,385	2.6
Employment insurance benefits	836	911	4,569	4,582	0.3
Total	2,694	2,799	13,717	13,967	1.8
Other levels of government					
Canada Health and Social Transfer	1,041	1,042	5,208	5,208	0.0
Fiscal transfers	769	782	3,848	3,913	1.7
Alternative Payments for Standing Programs	-178	-187	-888	-934	5.2
Total	1,632	1,637	8,168	8,187	0.2
Direct program spending					
Subsidies and other transfers					
Agriculture	34	93	146	223	52.7
Foreign Affairs	127	145	585	515	-12.0
Health	73	90	335	414	23.6
Human Resources Development	86	174	495	683	38.0
Indian and Northern Development	248	305	1,817	1,883	3.6
Industry and Regional Development	134	153	494	496	0.4
Veterans Affairs	112	113	570	566	-0.7
Other	173	132	975	818	-16.1
Total	987	1,205	5,417	5,598	3.3
Payments to Crown corporations					
Canadian Broadcasting Corporation	65	44	379	334	-11.9
Canada Mortgage and Housing Corporation	119	150	639	747	16.9
Other	108	43	469	408	-13.0
Total	292	237	1,487	1,489	0.1
Operating and capital expenditures					
Defence	750	776	3,162	3,074	-2.8
All other departmental expenditures	1,295	1,445	6,052	6,291	3.9
Total	2,045	2,221	9,214	9,365	1.6
Total direct program spending	3,324	3,663	16,118	16,452	2.1
Total program expenditures	7,650	8,099	38,003	38,606	1.6
Public debt charges	3,410	3,124	17,039	17,082	0.3
Total budgetary expenditures	11,060	11,223	55,042	55,688	1.2
Memorandum item:					
Total transfers	5,313	5,641	27,302	27,752	1.6

Table 4

The budgetary balance and financial requirements/surplus

	August		April to August	
	1997	1998	1997-98	1998-99
	(millions of dollars)			
Budgetary balance: deficit (-)/surplus (+)	-169	622	5,841	7,988
Loans, investments and advances				
Crown corporations	57	62	140	609
Other	61	106	130	159
Total	118	168	270	768
Specified purpose accounts				
Canada Pension Plan Account	-289	-122	400	361
Superannuation accounts	-446	300	685	1,528
Other	-76	52	-272	-5
Total	-811	230	813	1,884
Other transactions	1,160	1,332	-5,436	-6,062
Total non-budgetary transactions	467	1,730	-4,353	-3,410
Financial requirements/surplus (excluding foreign exchange transactions)	298	2,352	1,488	4,578
Foreign exchange transactions	-97	5,681	3,873	6,889
Net financial balance	201	8,033	5,361	11,467

Table 5

Net financial balance and net borrowings

	August		April to August	
	1997	1998	1997-98	1998-99
	(millions of dollars)			
Net financial balance	201	8,033	5,361	11,467
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	3,600	2,300	8,838	12,523
Canada Savings Bonds	-237	-196	-1,444	-2,017
Treasury bills	-4,600	-2,100	-17,900	-22,800
Other	-1	-24	832	1,547
Subtotal	-1,238	-20	-9,674	-10,747
Less: Government's holdings of unmatured debt	107	89	638	455
Total	-1,131	69	-9,036	-10,292
Payable in foreign currencies				
Marketable bonds	61	75	-716	3,569
Notes and loans	0	0	0	0
Canada bills	917	1,433	-950	282
Canada notes			-326	-873
Total	978	1,508	-1,992	2,978
Net change in borrowings	-153	1,577	-11,028	-7,314
Change in cash balances	48	9,610	-5,667	4,153

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A Publication of the Department of Finance

Highlights of financial results for September 1998

Budgetary surplus down slightly in September 1998

A budgetary surplus of \$2.4 billion was recorded in September 1998, down slightly from the surplus of \$2.5 billion recorded in the same period last year. On a year-over-year basis, budgetary revenues declined 0.7 per cent, program spending was up 0.8 per cent, while public debt charges were 2.3 per cent lower.

The decline in budgetary revenues in September 1998, on a year-over-year basis, was primarily attributable to lower goods and services tax (GST) revenues.

- Net GST revenues were down \$0.3 billion or 14.5 per cent, reversing the increase recorded in the previous month. In the last few months, the fluctuations in collections, on a year-over-year basis, have been influenced by the timing of refunds. In September 1998, refunds were up sharply due to an extra processing cycle compared to the same period last year.
- Personal income tax revenues were down \$0.2 billion, or 3.4 per cent. However, this entire decline was attributable to a transfer from personal income tax collections to employment insurance premium revenues, relating to an adjustment with respect to taxation year 1997. On a monthly basis, employers remit gross tax deductions from employees, including federal and personal income tax deductions, and employment insurance and Canada Pension Plan premiums. These are initially allocated to

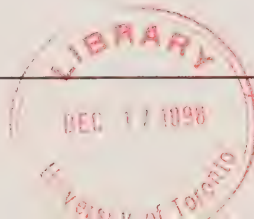
the respective components using estimates, with adjustments made once annual tax data become available. The transfer made in September accounted for all of the increase in employment insurance premium revenues. Without this transfer, employment insurance premium revenues would have been lower, reflecting the decline in premium rates for 1998.

- Corporate income tax collections were up \$0.2 billion, or 13.0 per cent, reflecting a strong increase in gross remittances and a slight decline in refunds.
- Non-tax revenues were up \$0.2 billion or 43.1 per cent. This component is quite volatile, reflecting the timing of receipts.

The increase in program spending was primarily attributable to higher operating and capital expenditures, mainly due to the timing of expenditures. Among the other components:

- Employment insurance benefits were down 8.8 per cent, reversing the increase reported last month. This primarily reflected the timing of cheques over these two months.
- Transfers to other levels of government and subsidies and other transfers were up marginally, while payments to Crown corporations were lower.

The decline in public debt charges was primarily attributable to a lower stock of interest-bearing debt.



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Table 1

Summary statement of transactions¹

	September		April to September	
	1997	1998	1997-98	1998-99
(millions of dollars)				
Budgetary transactions				
Revenue	13,732	13,633	74,615	77,309
Program spending	-7,765	-7,830	-45,768	-46,437
Operating surplus	5,967	5,803	28,847	30,872
Public debt charges	-3,456	-3,376	-20,495	-20,457
Deficit/surplus	2,511	2,427	8,352	10,415
Non-budgetary transactions	-856	-1,385	-5,209	-4,795
Financial requirements/surplus (excluding foreign exchange transactions)	1,655	1,042	3,143	5,620
Foreign exchange transactions	-585	-1,054	3,288	5,835
Net financial balance	1,070	-12	6,431	11,455
Net increase(+)/decrease (-) in borrowings	-1,991	-9,109	-13,019	-16,424
Net change in cash balances	-921	-9,121	-6,588	-4,969

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

¹ There has been some confusion concerning the two main measures of the the government's fiscal position: "budgetary balance" and "financial balance". The difference is explained in the accompanying text.

Year-to-date: budgetary surplus up \$2.1 billion

Over the first six months (April to September) of the 1998-99 fiscal year, the budgetary surplus was estimated at \$10.4 billion, up \$2.1 billion from the surplus of \$8.4 billion recorded over the first six months of 1997-98. Budgetary revenues were up \$2.7 billion (3.6 per cent), program spending was up \$0.7 billion (1.5 per cent), while public debt charges were virtually unchanged.

Within budgetary revenues:

- Personal income tax collections were up \$2.0 billion, or 5.6 per cent. This increase was due to higher taxes paid on filing, related to the strong income growth in the 1997 taxation year, and continued increases in receipts from monthly deductions from employment income, due to the increases in the number of people employed. Revenues to date were

adversely affected by a transfer of \$0.3 billion to employment insurance premium revenues, due to an adjustment relating to the 1997 taxation year.

- Corporate income tax revenues were up \$0.8 billion, or 9.6 per cent, primarily reflecting higher gross collections, due to continued strength in corporate profits in certain sectors of the economy. In addition, part of the increase may be due to the monthly tax remittance procedures for corporations. Corporations are required to file monthly instalments based on either their last year's actual tax liability or their current year's estimated tax liability. Corporations have 60 days after their year end to make settlement payments for any amounts owing. This results in a substantial amount of corporate income tax collections being received in the months of February and March, ranging from 25 to 40 per cent of total

Table 2

Budgetary revenues

	September		April to September		Per cent
	1997	1998	1997-98	1998-99	change
	(millions of dollars)				(%)
Income taxes					
Personal income tax	7,071	6,831	35,897	37,905	5.6
Corporate income tax	1,235	1,395	8,282	9,077	9.6
Other income tax revenue	175	55	1,200	1,110	-7.5
Total income tax	8,481	8,281	45,379	48,092	6.0
Employment insurance premium revenues	1,538	1,764	10,593	10,422	-1.6
Excise taxes and duties					
Goods and services tax	2,172	1,858	10,191	10,370	1.8
Customs import duties	240	256	1,269	1,289	1.6
Sales and excise taxes	816	780	4,343	4,402	1.4
Total excise taxes and duties	3,228	2,894	15,803	16,061	1.6
Total tax revenues	13,247	12,939	71,775	74,575	3.9
Non-tax revenues	485	694	2,840	2,734	-3.7
Total budgetary revenues	13,732	13,633	74,615	77,309	3.6

collections for the year as a whole. Monthly instalments for 1997 were largely based on 1996 tax liabilities. However, tax liabilities for 1997 were substantially higher than in 1996, as collections in the settlement period (February and March 1998) were up nearly 30 per cent over the 1996 settlement period. As a result, instalment payments for 1997 understated the actual tax liability for the year as a whole. Consequently, instalments for 1998 have been increased to reflect 1997 tax liabilities, thereby accounting for current strength in corporate income tax collections.

- Employment insurance premium revenues were down \$0.2 billion, or 1.6 per cent, attributable to a decline in premium rates. The employee premium rate (per \$100 of insurable earnings) was reduced from \$2.90 for 1997 to \$2.70 for 1998 (with a corresponding decline in the employer rate). Partially offsetting the impact of the decline in premium rates was the transfer for underpayments relating to the 1997 taxation year.

- Net GST revenues were up \$0.2 billion, or 1.8 per cent. Monthly revenues to date have been extremely volatile, primarily due to the timing of refunds. Gross collections were up 5.5 per cent in the first six months of 1998-99, in line with the growth in consumer demand. However, refunds were up 9.5 per cent, thereby depressing the growth in net revenues.
- Customs import duties were up slightly, as the growth in imports more than offset the impact of tariff reductions. Other excise taxes and duties were up 1.4 per cent, as the reduction in the air transportation tax, effective January 1, 1998, dampened the impact of increases in energy and tobacco taxes and duties.
- Non-tax revenues, consisting of a return on investments and other non-tax revenues, such as fees and proceeds from sales, among others, were down \$0.1 billion or 3.7 per cent.

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Within program spending:

- Major transfers to persons were up \$0.2 billion, due entirely to higher elderly benefit payments. Employment benefit payments were down slightly, reflecting the decline in the number of beneficiaries.
- Major transfers to other levels of government were virtually unchanged. Cash entitlements under the Canada Health and Social Transfer (CHST) were unchanged as current legislation prevents the fiscal year cash entitlement for the period 1997-98 to 2002-03 from falling below \$12.5 billion. However, total CHST entitlements consist of both cash entitlements and tax point transfers. With this cash entitlement floor and a rising value in the tax point transfers, total entitlements under the CHST are increasing. Fiscal transfers were up slightly but this was largely offset by higher recoveries under Alternative Payments for Standing Programs.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, was up \$0.5 billion, or 2.4 per cent. This component includes payments to Crown corporations, subsidies and other transfer payments, and the operating and capital costs of government, including defence. Subsidies and other transfers were up \$0.2 billion. Most of this increase was due to the initiatives announced in the February 1998 budget under the Canadian Opportunities Strategy, as well as to higher payments under the *Farm Income Protection Act* and increased health-related transfers. Partially offsetting the impact of these increases were lower transfers to NAVCAN, in line with the reductions in the air transportation tax. Payments to Crown corporations were marginally lower, while operating and capital expenditures were up 2.6 per cent.

Public debt charges were marginally lower, primarily due to a decline in the overall stock of interest-bearing debt.

Year-to-date: financial surplus of \$5.6 billion (excluding foreign transactions)

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance only includes those activities over which the government has legislative control.

In contrast, financial requirements/surplus measure the difference between cash coming in to the government and cash going out. Financial requirements/surplus differ from the budgetary balance, as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$4.8 billion in the April to September 1998 period, compared to a net requirement of \$5.2 billion in the same period last year. As a result, there was a financial surplus (excluding foreign exchange transactions) of \$5.6 billion in the first six months of 1998-99, up from \$2.5 billion in the same period last year.

Year-to-date: net financial balance of \$11.5 billion/net borrowings down \$16.4 billion

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of this Account is to promote order and stability in the foreign exchange market. It fulfils this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure.

Table 3

Budgetary expenditures

	September		April to September		Per cent
	1997	1998	1997-98	1998-99	change
	(millions of dollars)				(%)
Transfer payments to:					
Persons					
Elderly benefits	1,866	1,872	11,014	11,257	2.2
Employment insurance benefits	856	781	5,425	5,363	-1.1
Total	2,722	2,653	16,439	16,620	1.1
Other levels of government					
Canada Health and Social Transfer	1,042	1,042	6,250	6,250	0.0
Fiscal transfers	769	784	4,617	4,698	1.8
Alternative Payments for Standing Programs	-178	-187	-1,065	-1,120	5.2
Total	1,633	1,639	9,802	9,828	0.3
Direct program spending					
Subsidies and other transfers					
Agriculture	71	39	217	262	20.7
Foreign Affairs	131	143	716	657	-8.2
Health	45	55	380	469	23.4
Human Resources Development	124	159	620	842	35.8
Indian and Northern Development	312	307	2,129	2,190	2.9
Industry and Regional Development	95	125	589	621	5.4
Veterans Affairs	118	115	688	681	-1.0
Other	196	165	1,171	983	-16.1
Total	1,092	1,108	6,510	6,705	3.0
Payments to Crown corporations					
Canadian Broadcasting Corporation	69	66	448	400	-10.7
Canada Mortgage and Housing Corporation	118	120	757	867	14.5
Other	108	81	576	490	-14.9
Total	295	267	1,781	1,757	-1.3
Operating and capital expenditures					
Defence	763	687	3,926	3,761	-4.2
All other departmental expenditures	1,260	1,476	7,310	7,766	6.2
Total	2,023	2,163	11,236	11,527	2.6
Total direct program spending	3,410	3,538	19,527	19,989	2.4
Total program expenditures	7,765	7,830	45,768	46,437	1.5
Public debt charges	3,456	3,376	20,495	20,457	-0.2
Total budgetary expenditures	11,221	11,206	66,263	66,894	1.0
Memorandum item:					
Total transfers	5,447	5,400	32,751	33,153	1.2

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Table 4

The budgetary balance and financial requirements/surplus

	September		April to September	
	1997	1998	1997-98	1998-99
	(millions of dollars)			
Budget balance: deficit (-)/surplus (+)	2,511	2,427	8,352	10,415
Loans, investments and advances				
Crown corporations	249	122	389	730
Other	-95	-544	35	-384
Total	154	-422	424	346
Specified purpose accounts				
Canada Pension Plan Account	425	1,028	825	1,389
Superannuation accounts	334	363	1,018	1,891
Other	-1	24	-272	19
Total	758	1,415	1,571	3,299
Other transactions	-1,768	-2,378	-7,204	-8,440
Total non-budgetary transactions	-856	-1,385	-5,209	-4,795
Financial requirements/surplus (excluding foreign exchange transactions)	1,655	1,042	3,143	5,620
Foreign exchange transactions	-585	-1,054	3,288	5,835
Net financial balances	1,070	-12	6,431	11,455

Table 5

Net financial balance and net borrowings

	September		April to September	
	1997	1998	1997-98	1998-99
	(millions of dollars)			
Net financial balance	1,070	-12	6,431	11,455
Net increase(+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	1,012	-6,492	9,850	6,031
Canada Savings Bonds	-195	-99	-1,639	-2,116
Treasury bills	-2,200	-3,600	-20,100	-26,400
Other	-453	-1,004	380	543
Subtotal	-1,836	-11,195	-11,509	-21,942
Less: Government's holdings of unmatured debt	119	77	756	532
Total	-1,717	-11,118	-10,753	-21,410
Payable in foreign currencies				
Marketable bonds	0	308	-716	3,877
Notes and loans	0	0	0	0
Canada bills	-274	1,754	-1,224	2,035
Canada notes	0	-53	-326	-926
Total	-274	2,009	-2,266	4,986
Net change in borrowings	1,991	-9,109	-13,019	-16,424
Change in cash balance	-921	-9,121	-6,588	-4,969

Table 6

Condensed statement of assets and liabilities

	March 31 1998	September 30 1998	Change
	(millions of dollars)		
Liabilities			
Accounts payable, accruals and allowances			
Accounts payable and accrued liabilities	22,364	9,182	-13,182
Interest and matured debt	10,419	10,572	153
Allowances	10,917	10,917	0
Total accounts payable, accruals and allowances	43,700	30,671	-13,029
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	117,457	119,348	1,891
Canada Pension Plan (net of securities)	4,205	5,595	1,390
Other pension and other accounts	5,872	5,890	18
Total pension and other accounts	127,534	130,833	3,299
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	294,583	300,614	6,031
Treasury bills	112,300	85,900	-26,400
Canada Savings Bonds	29,769	28,185	-1,584
Other	3,456	3,999	543
Subtotal	440,108	418,698	-21,410
Payable in foreign currencies	27,183	32,170	4,987
Total unmaturred debt	467,291	450,868	-16,423
Total interest-bearing debt	594,825	581,701	-13,124
Total liabilities	638,525	612,372	-26,153
Assets			
Cash and accounts receivable	15,813	6,256	-9,557
Foreign exchange accounts	28,968	23,133	-5,835
Loans, investments and advances (net of allowances)	14,036	13,690	-346
Total assets	58,817	43,079	-15,738
Accumulated deficit	579,708	569,293	-10,415

The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions.

Taking all these factors into account, in the first six months of 1998-99, there was a net source of funds of \$5.8 billion from foreign exchange

transactions, up from a source of \$3.3 billion in the same period last year.

With a budgetary surplus of \$10.4 billion, a net requirement of \$4.8 billion from non-budgetary transactions, and a net source of funds of \$5.8 billion from foreign exchange transactions, the net financial balance recorded a surplus of \$11.5 billion, over the April to September 1998 period, compared to \$6.4 billion in the same period last year.

The Fiscal Monitor

Table 7

Debt Servicing and Reduction Account (DSRA)

	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
	(millions of dollars)					
Gross GST collected	29,564	30,516	32,652	36,715	38,048	40,733
Less:						
Refunds and rebates	11,330	12,138	14,271	17,112	18,874	19,782
Quarterly low-income tax credit	2,262	2,503	2,685	2,816	2,799	2,872
Net GST	15,168	14,868	15,696	16,787	16,374	18,079
GST penalties and interest received	19	71	90	129	135	159
Gains from wind-up of interest in Crown corporations/disposal of shares in Crown corporations	2	110			325	
Gifts to the Crown	0.4	0.1	0.2	0.5	0.3	0.3
Proceeds to the DSRA	15,190	15,050	15,786	16,916	16,835	18,238

Source: *Public Accounts of Canada – 1997*.

With this net financial balance, coupled with a reduction in cash balances of \$5.0 billion, the government retired \$16.4 billion of market debt in the first six months of 1998-99.

Cash balances at the end of September 1998 were \$5.3 billion.

The Debt Servicing and Reduction Account

In June 1991, legislation to establish the Debt Servicing and Reduction Account received Royal Assent. As a result, effective April 1, 1991, all GST revenue net of the applicable input tax credits, rebates and the low-income credit, along with net proceeds from the sale of Crown corporations and gifts

to the Crown identified for debt reduction must, by law, go directly to the Debt Servicing and Reduction Account. The funds in this Account can only be used to pay the cost of servicing the public debt and ultimately to retire debt. The Account is audited on an annual basis by the Auditor General of Canada. In his "Observations" on the 1996-97 financial statements, the Auditor General questioned the need for this Account, given the fundamental concept of the Consolidated Revenue Fund. The government has asked the House of Commons Standing Committee on Finance to review this issue and advise the government.



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The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for October 1998

Budgetary deficit of \$0.8 billion in October 1998

A budgetary deficit of \$0.8 billion was recorded in October 1998, up \$0.2 billion from the deficit of \$0.6 billion recorded in the same period last year. A deficit was expected in October, reflecting timing factors affecting both revenues and program spending. For example, revenues are adversely affected in October by the quarterly payment of the low-income goods and services tax (GST) credit and the remittance procedures for personal income tax and employment insurance premium liabilities. Program spending is skewed towards the latter half of the fiscal year, reflecting the timing of payments. In addition, for 1998-99, the impact of the 1998 budget tax relief and spending initiatives primarily affects the latter half of the fiscal year.

On a year-over-year basis, budgetary revenues were marginally lower as higher non-tax revenues, personal income tax revenues, GST revenues and other tax revenues were offset by declines in the other revenue components, most notably corporate income tax revenues and customs import duties.

Program spending was up 1.6 per cent, primarily attributable to higher operating and capital expenditures, increased elderly benefit payments and increased payments to Crown corporations. Dampening the impact of these increases were lower subsidies and other transfers.

Public debt charges were up by 1 per cent, due to a slight increase in the average effective interest rate on interest-bearing debt.

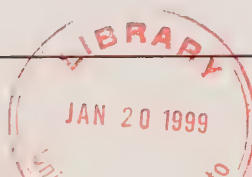
Year-to-date: budgetary surplus up \$1.9 billion

Over the first seven months (April to October) of the 1998-99 fiscal year, the budgetary surplus was estimated at \$9.6 billion, up \$1.9 billion from the surplus of \$7.7 billion recorded over the first seven months of 1997-98. Budgetary revenues were up \$2.7 billion (3.1 per cent), program spending was

up \$0.8 billion (1.5 per cent), while public debt charges were unchanged.

Within budgetary revenues:

- Personal income tax collections were up \$2.0 billion, or 5.0 per cent. This increase was due to higher taxes paid on filing, related to the strong income growth in the 1997 taxation year, and continued increases in receipts from monthly deductions from employment income, due to the increases in the number of people employed. Revenues to date were adversely affected by a transfer of \$0.3 billion to employment insurance premium revenues, due to an adjustment relating to the 1997 taxation year.
- Corporate income tax revenues were up \$0.7 billion, or 6.9 per cent, despite the fact that corporate profits were lower in the first three quarters of 1998 than in the same period last year. This discrepancy is primarily due to the monthly tax remittance procedures for corporations. Corporations are required to file monthly instalments based on either their last year's actual tax liability or their current year's estimated tax liability. Corporations have 60 days after their year end to make settlement payments for any amounts owing. This results in a substantial amount of corporate income tax collections being received in the months of February and March, ranging from 25 per cent to 40 per cent of total collections for the year as a whole. Monthly instalments for 1997 were largely based on 1996 tax liabilities. However, tax liabilities for 1997 were substantially higher than in 1996, which led to collections in the settlement period (February and March 1998) rising up nearly 30 per cent over the 1996 settlement period. As a result, instalment payments for 1997 understated the actual tax liability for the year as a whole. Consequently, instalments for 1998 have been increased to reflect 1997 tax liabilities, thereby accounting for the current strength in corporate income tax collections.



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Table 1

Summary statement of transactions

	October		April to October	
	1997	1998	1997-98	1998-99
(millions of dollars)				
Budgetary transactions				
Revenues	11,531	11,522	86,146	88,831
Program spending	-8,761	-8,899	-54,528	-55,335
Operating balance	2,770	2,623	31,618	33,496
Public debt charges	-3,408	-3,441	-23,904	-23,899
Budgetary balance (deficit/surplus)	-638	-818	7,714	9,597
Non-budgetary transactions	1,010	-137	-4,200	-4,931
Financial requirements/surplus (excluding foreign exchange transactions)	372	-955	3,514	4,666
Foreign exchange transactions	677	-297	3,965	5,538
Net financial balance	1,049	-1,252	7,479	10,204
Net change in borrowings	1,614	-1,982	-11,405	-18,406
Net change in cash balances	2,663	-3,234	-3,926	-8,202

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

- Employment insurance premium revenues were down \$0.2 billion, or 1.9 per cent, attributable to the decline in premium rates. The employee premium rate (per \$100 of insurable earnings) was reduced from \$2.90 for 1997 to \$2.70 for 1998 (with a corresponding decline in the employer rate). Partially offsetting the impact of the decline in premium rates was the transfer for underpayments relating to the 1997 taxation year.
- Net GST revenues were up \$0.2 billion, or 2.0 per cent. Monthly revenues to date have been extremely volatile, primarily due to the timing of refunds. Gross collections were up 5.4 per cent in the first seven months over 1998-99, in line with the growth in consumer demand. However, refunds and rebates were up 9.6 per cent, thereby depressing the growth in net revenues.
- Customs import duties were down \$0.1 billion, or 8.6 per cent, as the growth in imports was more than offset by the impact of tariff reductions. Other excise taxes and duties were unchanged, as the reduction in the air transportation tax, effective January 1, 1998, dampened the impact of increases in energy and tobacco taxes and duties.
- Non-tax revenues, consisting of a return on investments and other non-tax revenues, such as fees and proceeds from sales, among others, were up \$0.1 billion, or 3.2 per cent.

Within program spending:

- Major transfers to persons were up \$0.3 billion, due entirely to higher elderly benefit payments. Employment benefit payments were down slightly, reflecting the decline in the number of beneficiaries.
- Major transfers to other levels of government were up slightly as higher fiscal transfers were largely offset by higher recoveries under Alternative Payments for Standing Programs. Cash entitlements under the Canada Health and Social Transfer (CHST) were unchanged as current legislation prevents the fiscal year cash entitlement for the period 1997-98 to 2002-03 from falling below \$12.5 billion. However, total CHST entitlements consist of both cash entitlements and tax point transfers. With this cash entitlement floor and a rising value in the tax point transfers, total entitlements under the CHST are increasing.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, was up \$0.5 billion, or 2.0 per cent. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. Subsidies and other transfers were up \$0.1 billion. Most of this increase was due to the initiatives announced in the February 1998 budget under the

The Fiscal Monitor

Table 2

Budgetary revenues

	October		April to October		Per cent change
	1997	1998	1997-98	1998-99	
	(millions of dollars)				(%)
Income taxes					
Personal income tax	5,411	5,450	41,308	43,355	5.0
Corporate income tax	1,473	1,353	9,756	10,430	6.9
Other income tax revenue	190	273	1,389	1,383	-0.4
Total income tax	7,074	7,076	52,453	55,168	5.2
Employment insurance premium revenues	1,382	1,322	11,976	11,744	-1.9
Excise taxes and duties					
Goods and services tax	1,706	1,764	11,897	12,133	2.0
Customs import duties	348	190	1,618	1,479	-8.6
Sales and excise taxes	759	706	5,102	5,107	0.1
Total excise taxes and duties	2,813	2,660	18,617	18,719	0.5
Total tax revenues	11,269	11,058	83,046	85,631	3.1
Non-tax revenues	262	464	3,100	3,200	3.2
Total budgetary revenues	11,531	11,522	86,146	88,831	3.1

Canadian Opportunities Strategy and increased aboriginal-related transfers. Payments to Crown corporations were largely unchanged, while operating and capital expenditures were up 2.8 per cent.

Public debt charges were virtually unchanged, as a decline in the overall stock of interest-bearing debt was offset by an increase in the average effective interest rate on that debt.

Year-to-date: financial surplus of \$4.7 billion (excluding foreign exchange transactions)

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance only includes those activities over which the government has legislative control.

In contrast, financial requirements/surplus measure the difference between cash coming in to the government and cash going out. Financial requirements/surplus differ from the budgetary balance, as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities.

These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$4.9 billion in the April to October 1998 period, compared to a net requirement of \$4.2 billion in the same period last year. As a result, there was a financial surplus (excluding foreign exchange transactions) of \$4.7 billion in the first seven months of 1998-99, up \$1.2 billion in the same period last year.

Year-to-date: net financial balance of \$10.2 billion/net borrowings down \$18.4 billion

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. It fulfils this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars

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Table 6

Condensed statement of assets and liabilities

	March 31, 1998	October 31, 1998	Change
	(millions of dollars)		
Liabilities			
Accounts payable, accruals and allowances			
Accounts payable and accrued liabilities	22,364	8,468	-13,896
Interest and matured debt	10,419	11,798	1,379
Allowances	10,917	10,917	0
Total accounts payable, accruals and allowances	43,700	31,183	-12,517
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	117,457	119,667	2,210
Canada Pension Plan (net of securities)	4,205	5,147	942
Other pension and other accounts	5,872	5,926	54
Total pension and other accounts	127,534	130,740	3,206
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	294,583	297,514	2,931
Treasury bills	112,300	86,700	-25,600
Canada Savings Bonds	29,769	27,849	-1,920
Other	3,456	4,376	920
Subtotal	440,108	416,439	-23,669
Payable in foreign currencies	27,183	32,446	5,263
Total unmatured debt	467,291	448,885	-18,406
Total interest-bearing debt	594,825	579,625	-15,200
Total liabilities	638,525	610,808	-27,717
Assets			
Cash and accounts receivable	15,813	3,544	-12,269
Foreign exchange accounts	28,968	23,430	-5,538
Loans, investments and advances (net of allowances)	14,036	13,723	-313
Total assets	58,817	40,697	-18,120
Accumulated deficit	579,708	570,111	-9,597

represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions.

Taking all these factors into account, in the first seven months of 1998-99, there was a net source of funds of \$5.5 billion from foreign exchange transactions, up from a source of \$4.0 billion in the same period last year.

With a budgetary surplus of \$9.6 billion, a net requirement of \$4.9 billion from non-budgetary

transactions, and a net source of funds of \$5.5 billion from foreign exchange transactions, the net financial balance recorded a surplus of \$10.2 billion over the April to October 1998 period, compared to \$7.5 billion in the same period last year.

With this net financial balance, coupled with a reduction in cash balances of \$8.2 billion, the government retired \$18.4 billion of market debt in the first seven months of 1998-99. Cash balances at the end of October 1998 were \$2.1 billion.

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December 1998



The Fiscal Monitor

Table 3

Budgetary expenditures

	October		April to October		Per cent
	1997	1998	1997-98	1998-99	change
	(millions of dollars)				(%)
Transfer payments to:					
Persons					
Elderly benefits	1,830	1,928	12,844	13,185	2.7
Employment insurance benefits	761	747	6,186	6,110	-1.2
Total	2,591	2,675	19,030	19,295	1.4
Other levels of government					
Canada Health and Social Transfer	1,042	1,042	7,292	7,292	0.0
Fiscal transfers	777	829	5,394	5,527	2.5
Alternative Payments for Standing Programs	-178	-185	-1,243	-1,305	5.0
Total	1,641	1,686	11,443	11,514	0.6
Direct program spending					
Subsidies and other transfers					
Agriculture	101	27	318	289	-9.1
Foreign Affairs	95	108	811	766	-5.5
Health	93	91	473	560	18.4
Human Resources Development	168	141	785	979	24.7
Indian and Northern Development	249	261	2,377	2,451	3.1
Industry and Regional Development	154	140	743	761	2.4
Veterans Affairs	115	114	803	795	-1.0
Other	250	212	1,421	1,195	-15.9
Total	1,225	1,094	7,731	7,796	0.8
Payments to Crown corporations					
Canadian Broadcasting Corporation	74	105	522	505	-3.3
Canada Mortgage and Housing Corporation	167	135	924	1,002	8.4
Other	58	91	634	581	-8.4
Total	299	331	2,080	2,088	0.4
Operating and capital expenditures					
Defence	1,005	966	4,931	4,727	-4.1
All other departmental expenditures	2,000	2,146	9,313	9,915	6.5
Total	3,005	3,112	14,244	14,642	2.8
Total direct program spending	4,529	4,537	24,055	24,526	2.0
Total program expenditures	8,761	8,899	54,528	55,335	1.5
Public debt charges	3,408	3,441	23,904	23,899	0.0
Total budgetary expenditures	12,169	12,340	78,432	79,234	1.0
Memorandum item:					
Total transfers	5,457	5,455	38,204	38,605	1.0

Table 4

The budgetary balance and financial requirements/surplus

	October		April to October	
	1997	1998	1997-98	1998-99
(millions of dollars)				
Budgetary balance (deficit/surplus)	-638	-818	7,714	9,597
Loans, investments and advances				
Crown corporations	-118	19	271	750
Other	-85	-52	-50	-437
Total	-203	-33	221	313
Specified purpose accounts				
Canada Pension Plan Account	164	-447	989	942
Superannuation accounts	318	319	1,336	2,211
Other	60	35	-214	54
Total	542	-93	2,111	3,207
Other transactions	671	-11	-6,532	-8,451
Total non-budgetary transactions	1,010	-137	-4,200	-4,931
Financial requirements/surplus (excluding foreign exchange transactions)	372	-955	3,514	4,666
Foreign exchange transactions	677	-297	3,965	5,538
Net financial balance	1,049	-1,252	7,479	10,204

Table 5

Net financial balance and net borrowings

	October		April to October	
	1997	1998	1997-98	1998-99
(millions of dollars)				
Net financial balance	1,049	-1,252	7,479	10,204
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	-2,775	-3,100	7,075	2,931
Canada Savings Bonds	-428	-370	-2,067	-2,486
Treasury bills	4,600	800	-15,500	-25,600
Other	-388	377	-8	919
Subtotal	1,009	-2,293	-10,500	-24,236
Less: Government's holding of unmatured debt	38	34	794	567
Total	1,047	-2,259	-9,706	-23,669
Payable in foreign currencies				
Marketable bonds	438	511	-278	4,388
Notes and loans	0	0	0	0
Canada bills	198	-213	-1,026	1,822
Canada notes	-69	-21	-395	-947
Total	567	277	-1,699	5,263
Total change in borrowings	1,614	-1,982	-11,405	-18,406
Change in cash balance	2,663	-3,234	-3,926	-8,202

The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for November 1998

Budgetary surplus of \$64 million in November 1998, down \$399 million from November 1997

A budgetary surplus of \$64 million was recorded in November 1998, down \$399 million from the surplus of \$463 million recorded in November 1997. Budgetary revenues were up \$559 million or 4.7 per cent, program spending increased by \$569 million, or 6.8 per cent, while public debt charges were up \$389 million, or 12.1 per cent.

The year-over-year increase in budgetary revenues reflected gains in personal and corporate income tax revenues, goods and services tax (GST) revenues, and non-tax revenues. The impact of these gains on total budgetary revenues was dampened by lower customs import duties, sales and excise taxes, and employment insurance premium revenues.

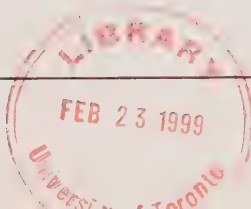
With the exception of expenditures related to Crown corporations and defence, all other major components of program spending were up on a year-over-year basis. Employment insurance benefit payments were up strongly, but most of this increase was attributable to an extra cheque cycle being processed in November 1998. The increases in subsidies and other transfers and all other departmental operating and capital expenditures were also largely attributable to timing factors.

The year-over-year increase in public debt charges was largely attributable to downward accrual adjustments to the November 1997 estimate, pertaining to overestimations in previous months.

Year-to-date: budgetary surplus of \$9.7 billion

Over the first eight months (April to November) of the 1998-99 fiscal year, the budgetary surplus was estimated at \$9.7 billion, up \$1.5 billion from the surplus of \$8.2 billion recorded over the first eight months of 1997-98. However, this improvement was largely due to higher personal income tax collections in May 1998, primarily relating to taxes owing with respect to earnings in the 1997 taxation year. There has been no net improvement in the fiscal balance over the other seven months of 1998-99.

Since revenues are typically strong in December, in part reflecting remittances from quarterly filers, the year-to-date surplus is expected to rise further in December 1998. However, monthly deficits are expected in the final quarter of 1998-99. The recently announced reductions in employment insurance premium rates are effective January 1, 1999. Revenues are typically depressed in January, due to the payment of the GST low-income credit and refunds. Corporate income tax revenues are expected to be significantly lower in the February/March 1999 settlement period, reflecting the decline in corporate profits in 1998 (see below for more details). Exchange fund earnings, which are reported in March, will also be significantly lower than in March 1998, due to the actions during 1998 to support the Canadian dollar. Personal income tax refunds, pertaining to the processing of the 1998 tax returns, will further depress revenues in March 1999. These factors will all serve to bring the underlying surplus for 1998-99 to below that recorded in 1997-98.



The Fiscal Monitor

Table 1

Summary statement of transactions

	November		April to November	
	1997	1998	1997-98	1998-99
(millions of dollars)				
Budgetary transactions				
Revenues	11,983	12,542	98,129	101,373
Program spending	-8,312	-8,881	-62,839	-64,216
Operating surplus	3,671	3,661	35,290	37,157
Public debt charges	-3,208	-3,597	-27,112	-27,496
Budgetary balance (deficit/surplus)	463	64	8,178	9,661
Non-budgetary transactions	1,758	2,665	-2,441	-2,353
Financial requirements/surplus (excluding foreign exchange transactions)	2,221	2,729	5,737	7,308
Foreign exchange transactions	1,638	-6,363	5,603	-825
Net financial balance	3,859	-3,634	11,340	6,483
Net change in borrowings	-105	3,339	-11,510	-15,068
Net change in cash balances	3,754	-294	-170	-8,585

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Over the first eight months of 1998-99, budgetary revenues were up \$3.2 billion (3.3 per cent), program spending was up \$1.4 billion (2.2 per cent), while public debt charges were \$0.4 billion (1.4 per cent) higher, compared to the first eight months of 1997-98.

Within budgetary revenues:

- Personal income tax collections were up \$2.2 billion, or 4.6 per cent. This increase was due to continued increases in receipts from monthly deductions from employment income, due to increases in the number of people employed, as well as higher taxes paid on filing, reflecting the strong income growth in the 1997 taxation year. The overall growth in personal income tax collections has been dampened by a number of factors, including a strong increase in refunds (up \$1.2 billion) and a transfer of \$0.3 billion to employment insurance premium revenues. Both of these factors relate to the 1997 taxation year. In addition, payments under the Canada Child Tax Benefit, which are netted from

personal income tax revenues, are up \$0.2 billion, reflecting the additional funding announced in the 1996 and 1997 budgets.

- Corporate income tax revenues were up \$0.8 billion, or 7.7 per cent, despite the fact that corporate profits were lower in the first three quarters of 1998 than in the same period in 1997. This discrepancy is primarily due to the monthly tax remittance procedures for corporations. Corporations are required to file monthly instalments based on either their last year's actual tax liability or their current year's estimated tax liability. Corporations have 60 days after their year end to make settlement payments for any amounts owing. This results in a substantial amount of corporate income tax collections being received in the months of February and March, ranging from 25 per cent to 40 per cent of total collections for the year as a whole. Monthly instalments for 1997 were largely based on 1996 tax liabilities. However, tax liabilities for 1997 were substantially higher than in 1996, which led to

Table 2

Budgetary revenues

	November		April to November		Per cent change
	1997	1998	1997-98	1998-99	
	(millions of dollars)				(%)
Income taxes					
Personal income tax	5,878	6,004	47,186	49,359	4.6
Corporate income tax	1,321	1,496	11,077	11,926	7.7
Other income tax revenue	194	173	1,584	1,556	-1.8
Total income tax	7,393	7,673	59,847	62,841	5.0
Employment insurance premium revenues	1,221	1,194	13,196	12,938	-2.0
Excise taxes and duties					
Goods and services tax	1,984	2,222	13,881	14,355	3.4
Customs import duties	242	172	1,860	1,652	-11.2
Sales and excise taxes	845	719	5,946	5,827	-2.0
Total excise taxes and duties	3,071	3,113	21,687	21,834	0.7
Total tax revenues	11,685	11,980	94,730	97,613	3.0
Non-tax revenues	298	562	3,399	3,760	10.6
Total budgetary revenues	11,983	12,542	98,129	101,373	3.3

collections in the settlement period (February and March 1998) rising up nearly 30 per cent over the 1996 settlement period. As a result, instalment payments for 1997 understated the actual tax liability for the year as a whole. Consequently, instalments for 1998 have been increased to reflect 1997 tax liabilities, thereby accounting for the current strength in corporate income tax collections. With corporate profits down in 1998, settlement payments in February/March 1999 are expected to be lower than those recorded in February/March 1998.

- Employment insurance premium revenues were down \$0.3 billion, or 2.0 per cent, attributable to the decline in premium rates. The employee premium rate (per \$100 of insurable earnings) was reduced from \$2.90 for 1997 to \$2.70 for 1998 (with a corresponding decline in the employer rate). With an announced employee rate of \$2.55 for 1999, premium revenues will be lower in 1998-99 than in 1997-98.

- Net GST revenues were up \$0.5 billion, or 3.4 per cent. Monthly revenues to date have been extremely volatile, primarily due to the timing of refunds. Gross collections were up 6.4 per cent in the first eight months of 1998-99, in line with the growth in consumer demand. However, refunds and rebates were up 10.5 per cent, thereby depressing the growth in net revenues.
- Customs import duties were down \$0.2 billion, or 11.2 per cent, as the growth in imports was more than offset by the impact of tariff reductions. Other excise taxes and duties were down \$0.1 billion, or 2.0 per cent, largely due to the reduction in the Air Transport Tax, effective January 1, 1998, and its elimination effective November 1, 1998.
- Non-tax revenues, consisting of the return on investments and other non-tax revenues, such as fees and proceeds from sales, among others, were up \$0.4 billion or 10.6 per cent.

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Table 3

Budgetary expenditures

		November		April to November		Per cent change
		1997	1998	1997-98	1998-99	
(millions of dollars)						(%)
Transfer payments to:						
Persons						
	Elderly benefits	1,867	1,899	14,711	15,084	2.5
	Employment insurance benefits	837	944	7,023	7,054	0.4
	Total	2,704	2,843	21,734	22,138	1.9
Other levels of government						
	Canada Health and Social Transfer	1,042	1,042	8,333	8,333	0.0
	Fiscal transfers	777	828	6,171	6,355	3.0
	Alternative Payments for Standing Programs	-180	-189	-1,423	-1,494	5.0
	Total	1,639	1,681	13,081	13,194	0.9
Direct program spending						
Subsidies and other transfers						
	Agriculture	54	106	371	394	6.2
	Foreign Affairs	111	19	922	784	-15.0
	Health	40	91	512	651	27.1
	Human Resources Development	98	113	883	1,091	23.6
	Indian and Northern Development	265	272	2,642	2,723	3.1
	Industry and Regional Development	121	120	865	881	1.8
	Veterans Affairs	112	115	915	910	-0.5
	Other	150	398	1,571	1,593	1.4
	Total	951	1,234	8,681	9,027	4.0
Payments to Crown corporations						
	Canadian Broadcasting Corporation	75	80	597	585	-2.0
	Canada Mortgage and Housing Corporation	153	143	1,077	1,145	6.3
	Other	88	69	722	650	-10.0
	Total	316	292	2,396	2,380	-0.7
Operating and capital expenditures						
	Defence	982	848	5,913	5,575	-5.7
	All other departmental expenditures	1,720	1,983	11,034	11,902	7.9
	Total	2,702	2,831	16,947	17,477	3.1
Total direct program spending		3,969	4,357	28,024	28,884	3.1
Total program expenditures		8,312	8,881	62,839	64,216	2.2
Public debt charges		3,208	3,597	27,112	27,496	1.4
Total budgetary expenditures		11,520	12,478	89,951	91,712	2.0
Memorandum item:						
	Total transfers	5,294	5,758	43,496	44,359	2.0

Table 4

The budgetary balance and financial requirements/surplus

	November		April to November	
	1997	1998	1997-98	1998-99
	(millions of dollars)			
Budgetary balance (deficit/surplus)	463	64	8,178	9,661
Loans, investments and advances				
Crown corporations	-92	141	180	891
Other	-72	-26	-123	-463
Total	-164	115	57	428
Specified purpose accounts				
Canada Pension Plan Account	-691	-593	299	349
Superannuation accounts	342	322	1,678	2,533
Other	7	-10	-207	45
Total	-342	-281	1,770	2,927
Other transactions	2,264	2,832	-4,268	-5,708
Total non-budgetary transactions	1,758	2,665	-2,441	-2,353
Financial requirements/surplus (excluding foreign exchange transactions)	2,221	2,729	5,737	7,308
Foreign exchange transactions	1,638	-6,363	5,603	-825
Net financial balance	3,859	-3,634	11,340	6,483

Table 5

Net financial balance and net borrowings

	November		April to November	
	1997	1998	1997-98	1998-99
	(millions of dollars)			
Net financial balance	3,859	-3,634	11,340	6,483
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	3,500	-1,100	10,575	1,831
Canada Savings Bonds	109	290	-1,958	-2,197
Treasury bills	-3,500	-500	-19,000	-26,100
Other	168	362	160	1,281
Subtotal	277	-948	-10,223	-25,185
Less: Government's holding of unmatured debt	-822	-415	-28	151
Total	-545	-1,363	-10,251	-25,034
Payable in foreign currencies				
Marketable bonds	42	4,838	-236	9,226
Notes and loans	0	0	0	0
Canada bills	342	-136	-684	1,687
Canada notes	56	-	-339	-947
Total	440	4,702	-1,259	9,966
Net change in borrowings	-105	3,339	-11,510	-15,068
Change in cash balance	3,754	-294	-170	-8,585

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Within program spending:

- Major transfers to persons were up \$0.4 billion, primarily due to higher elderly benefit payments. Employment insurance benefit payments were up slightly, reflecting the extra cheque processing cycle in November 1998.
- Major transfers to other levels of government were up \$0.1 billion, as higher fiscal transfers were largely offset by higher recoveries under Alternative Payments for Standing Programs. Cash entitlements under the Canada Health and Social Transfer (CHST) were unchanged as current legislation prevents the fiscal year cash entitlement for the period 1997-98 to 2002-03 from falling below \$12.5 billion. However, total CHST entitlements consist of both cash entitlements and tax point transfers. With this cash entitlement floor and a rising value in the tax point transfers, total entitlements under the CHST are increasing.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, was up \$0.9 billion, or 3.1 per cent. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. Subsidies and other transfers were up \$0.3 billion. Most of this increase was due to the initiatives announced in the February 1998 budget under the Canadian Opportunities Strategy and increased aboriginal-related transfers. Payments to Crown corporations were largely unchanged, while operating and capital expenditures were up 3.1 per cent.

Public debt charges were up \$0.4 billion, or 1.4 per cent, as a decline in the overall stock of interest-bearing debt was offset by an increase in the average effective interest rate on that debt.

Year-to-date: financial surplus of \$7.3 billion (excluding foreign exchange transactions)

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance only includes those activities over which the government has legislative control.

In contrast, financial requirements/surplus measure the difference between cash coming in to the government and cash going out. Financial requirements/surplus differ from the budgetary balance, as the former includes transactions in loans, investments, and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$2.4 billion in the April to November 1998 period, virtually unchanged from the net requirement in the same period in 1997. As a result, there was a financial surplus (excluding foreign exchange transactions) of \$7.3 billion in the first eight months of 1998-99, up \$1.6 billion from the same period in 1997-98.

**Year-to-date: net financial balance
of \$6.5 billion/net borrowings
down \$15.1 billion**

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. It fulfils this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions.

Taking all of these factors into account, in the first eight months of 1998-99, there was a net requirement of funds of \$0.8 billion from foreign exchange transactions, compared to a net source of \$5.6 billion in the same period last year.

With a budgetary surplus of \$9.7 billion, a net requirement of \$2.4 billion from non-budgetary transactions, and a net requirement of \$0.8 billion from foreign exchange transactions, the net financial balance recorded a surplus of \$6.5 billion over the April to November 1998 period, compared to a surplus of \$11.3 billion in the same period in 1997.

With this net financial balance, coupled with a reduction in cash balances of \$8.6 billion, the government retired \$15.1 billion of market debt in the first eight months of 1998-99. Cash balances at the end of November 1998 were \$1.8 billion.

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Table 6

Condensed statement of assets and liabilities

	March 31, 1998	November 30, 1998	Change
	(millions of dollars)		
Liabilities			
Accounts payable, accruals and allowances			
Accounts payable and accrued liabilities	22,364	10,176	-12,188
Interest and matured debt	10,419	12,909	2,490
Allowances	10,917	10,917	0
Total accounts payable, accruals and allowances	43,700	34,002	-9,698
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	117,457	119,989	2,532
Canada Pension Plan (net of securities)	4,205	4,554	349
Other pension and other accounts	5,872	5,916	44
Total pension and other accounts	127,534	130,459	2,925
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	294,583	296,414	1,831
Treasury bills	112,300	86,200	-26,100
Canada Savings Bonds	29,769	27,723	-2,046
Other	3,456	4,738	1,282
Subtotal	440,108	415,075	-25,033
Payable in foreign currencies	27,183	37,149	9,966
Total unmaturred debt	467,291	452,224	-15,067
Total interest-bearing debt	594,825	582,683	-12,142
Total liabilities	638,525	616,685	-21,840
Assets			
Cash and accounts receivable	15,813	3,237	-12,576
Foreign exchange accounts	28,968	29,793	825
Loans, investments and advances (net of allowances)	14,036	13,608	-428
Total assets	58,817	46,638	-12,179
Accumulated deficit (net public debt)	579,708	570,047	-9,661

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The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for December 1998

Budgetary surplus up slightly in December 1998

The budgetary surplus was \$2.0 billion in December 1998, up \$66 million from that recorded in December 1997. As mentioned in last month's Fiscal Monitor, a surplus was expected in December. Over the course of the fiscal year, budgetary revenues are usually their highest in the final month of each quarter, in large part reflecting remittances from quarterly personal income tax filers.

Budgetary revenues in December 1998 were virtually unchanged from December 1997, as increases in employment insurance premium revenues and goods and services tax (GST) revenues were offset by declines in the other major components. The year-over-year increase in employment insurance premium revenues was attributable to a transfer of funds to personal income tax revenues in December 1997, relating to taxation year 1996, which reduced employment insurance premium revenues in that month. Conversely, this transfer accounts for the decline in personal income tax revenues. Corporate income tax revenues were lower, attributable to final taxes payable for those corporations with taxation years ending in October.

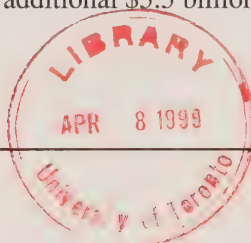
Program spending was 1.0 per cent lower in December 1998 than in December 1997, as lower subsidies and other transfers more than offset increases in the other major components. Public debt charges were up 2.0 per cent, as the impact of a higher average effective interest rate more than offset the decline in interest-bearing debt.

Year-to-date: budgetary surplus of \$11.7 billion

Over the first nine months (April to December) of the 1998-99 fiscal year, the budgetary surplus was estimated at \$11.7 billion, up \$1.5 billion from the surplus of \$10.2 billion reported in the first nine months of 1997-98. However, this improvement was largely due to higher personal income tax collections in May 1998, primarily relating to taxes owing with respect to earnings in the 1997 taxation year. There has been no net improvement in the fiscal balance over the other eight months of 1998-99.

Monthly deficits are expected through the final quarter of 1998-99. Revenues are typically depressed in January, due to the payment of the GST low-income credit and refunds. Corporate income tax revenues are expected to be significantly lower in the February/March 1999 settlement period (down \$1.0 billion), reflecting the decline in corporate profits in 1998 (see below for more details). Data revisions for 1998-99 and prior years have resulted in large upward adjustments to Equalization transfers, of which \$1.7 billion will be paid before the end of the fiscal year. Finally, timing of revenues and spending at year end also serve to reduce the budgetary balance. These factors are expected to reduce the surplus to date by \$3.2 billion.

In addition to these factors, there have been a number of policy decisions made since the February 1998 budget, including those in the 1999 budget, which will reduce the surplus by an additional \$5.5 billion. As a result,



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Table 1

Summary statement of transactions

	December		April to December	
	1997	1998	1997-98	1998-99
(millions of dollars)				
Budgetary transactions				
Revenues	14,769	14,811	112,892	116,178
Program spending	-9,282	-9,189	-72,115	-73,399
Operating surplus	5,487	5,622	40,777	42,779
Public debt charges	-3,493	-3,562	-30,605	-31,058
Budgetary balance (deficit/surplus)	1,994	2,060	10,172	11,721
Non-budgetary transactions	-969	-2,296	-3,407	-4,650
Financial requirements/surplus (excluding foreign exchange transactions)	1,025	-236	6,765	7,071
Foreign exchange transactions	2,388	4,219	7,990	3,394
Net financial balance	3,413	3,983	14,755	10,465
Net change in borrowings	-1,348	3,446	-12,855	-11,623
Net change in cash balances	2,065	7,429	1,900	-1,158

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

a balanced budget, or better, is expected for 1998-99. To the extent that the Contingency Reserve is not needed, it will be used to pay down the public debt. For more information, see Chapter 3 of *The Budget Plan 1999*.

Over the first nine months of 1998-99, budgetary revenues were up \$3.3 billion (2.9 per cent), program spending was up \$1.3 billion (1.8 per cent), while public debt charges were \$0.5 billion (1.5 per cent) higher, compared to the first nine months of 1997-98.

Within budgetary revenues:

- Personal income tax collections were up \$2.0 billion, or 3.7 per cent. This increase was due to continued increases in receipts from monthly deductions from employment income, reflecting the increases in the number of people employed, as well as higher taxes paid on filing, relating to the strong income growth in the 1997 taxation year. The overall growth in

personal income tax collections has been dampened by a number of factors, including a strong increase in refunds (up \$1.2 billion) and a net transfer of \$0.7 billion to employment insurance premium revenues. Both of these factors relate to the 1997 taxation year. In addition, payments under the Canada Child Tax Benefit, which are netted from personal income tax revenues, are up \$0.2 billion, reflecting the additional funding announced in the 1996 and 1997 budgets.

- Corporate income tax revenues were up \$0.5 billion, or 3.4 per cent, despite the fact that corporate profits were lower in the first three quarters of 1998 than in the same period in 1997. This discrepancy is primarily due to the monthly tax remittance procedures for corporations. Corporations are required to file monthly instalments based on either their last year's actual tax liability or their current year's estimated tax liability. Corporations have 60 days after their year end to make settlement

Table 2

Budgetary revenues

	December		April to December		Per cent change
	1997	1998	1997-98	1998-99	
	(millions of dollars)				(%)
Income taxes					
Personal income tax	8,331	8,185	55,517	57,544	3.7
Corporate income tax	2,058	1,662	13,136	13,588	3.4
Other income tax revenue	23	165	1,607	1,721	7.1
Total income tax	10,412	10,012	70,260	72,853	3.7
Employment insurance premium revenues	670	1,055	13,866	13,993	0.9
Excise taxes and duties					
Goods and services tax	1,661	1,993	15,542	16,348	5.2
Customs import duties	212	166	2,072	1,818	-12.3
Sales and excise taxes	709	595	6,655	6,420	-3.5
Total excise taxes and duties	2,582	2,754	24,269	24,586	1.3
Total tax revenues	13,664	13,821	108,395	111,432	2.8
Non-tax revenues	1,105	990	4,497	4,746	5.5
Total budgetary revenues	14,769	14,811	112,892	116,178	2.9

payments for any amounts owing. This results in a substantial amount of corporate income tax collections being received in the months of February and March, ranging from 25 per cent to 40 per cent of total collections for the year as a whole. Monthly instalments for 1997 were largely based on 1996 tax liabilities. However, tax liabilities for 1997 were substantially higher than in 1996, which led to collections in the settlement period (February and March 1998) rising up nearly 30 per cent over the 1996 settlement period. Since instalment payments for 1997 understated the actual tax liability for the year as a whole, instalments for 1998 were increased to reflect the actual 1997 tax liabilities, thereby accounting for the current strength in corporate income tax collections. However, with corporate profits down in 1998, settlement payments in February/March 1999 are expected to be lower than those recorded in February/March 1998. In fact, corporate tax collections declined in December, as companies with their taxation year ending in October filed their 1998 returns.

- Employment insurance premium revenues were up \$0.1 billion, or 0.9 per cent. This increase was attributable to net transfers from personal income tax revenues and an increase in the number of people employed. In December 1997, there was a transfer to personal income tax revenues, reflecting over-payments with respect to the 1996 taxation year, whereas in October 1998, there was a transfer from personal income tax revenues, due to under-payments with respect to 1997 taxation year. Dampening the impact of these factors was the decline in premium rates. The employee premium rate (per \$100 of insurable earnings) was reduced from \$2.90 for 1997 to \$2.70 for 1998 (with a corresponding decline in the employer rate). With an announced employee rate of \$2.55 for 1999, premium revenues will be lower in 1998-99 than in 1997-98.

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Table 3

Budgetary expenditures

Budgetary expenditures					
	December		April to December		Per cent
	1997	1998	1997-98	1998-99	change
	(millions of dollars)				(%)
Transfer payments to:					
Persons					
Elderly benefits	1,863	1,923	16,575	17,008	2.6
Employment insurance benefits	1,024	1,047	8,047	8,101	0.7
Total	2,887	2,970	24,622	25,109	2.0
Other levels of government					
Canada Health and Social Transfer	1,042	1,042	9,375	9,375	0.0
Fiscal transfers	778	828	6,949	7,184	3.4
Alternative Payments for Standing Programs	-180	-187	-1,603	-1,681	4.9
Total	1,640	1,683	14,721	14,878	1.1
Direct program spending					
Subsidies and other transfers					
Agriculture	35	79	407	474	16.5
Foreign Affairs	192	203	1,114	987	-11.4
Health	96	69	608	720	18.4
Human Resources Development	122	288	1,005	1,380	37.3
Indian and Northern Development	299	285	2,941	3,007	2.2
Industry and Regional Development	228	173	1,093	1,055	-3.5
Veterans Affairs	108	114	1,024	1,024	0.0
Other	458	58	2,030	1,651	-18.7
Total	1,538	1,269	10,222	10,298	0.7
Payments to Crown corporations					
Canadian Broadcasting Corporation	75	174	672	759	12.9
Canada Mortgage and Housing Corporation	225	165	1,303	1,310	0.5
Other	108	83	830	733	-11.7
Total	408	422	2,805	2,802	-0.1
Operating and capital expenditures					
Defence	942	979	6,855	6,553	-4.4
All other departmental expenditures	1,867	1,866	12,890	13,759	6.7
Total	2,809	2,845	19,745	20,312	2.9
Total direct program spending	4,755	4,536	32,772	33,412	2.0
Total program expenditures	9,282	9,189	72,115	73,399	1.8
Public debt charges	3,493	3,562	30,605	31,058	1.5
Total budgetary expenditures	12,775	12,751	102,720	104,457	1.7
Memorandum item:					
Total transfers	6,065	5,922	49,565	50,285	1.5

Table 4

The budgetary balance and financial requirements/surplus

	December		April to December	
	1997	1998	1997-98	1998-99
	(millions of dollars)			
Budgetary balance (deficit/surplus)	1,994	2,060	10,172	11,721
Loans, investments and advances				
Crown corporations	460	204	640	1,095
Other	75	11	-48	-452
Total	535	215	592	643
Specified purpose accounts				
Canada Pension Plan Account	-502	-409	-203	-60
Superannuation accounts	377	427	2,056	2,959
Other	-37	-37	-243	8
Total	-162	-19	1,610	2,907
Other transactions	-1,342	-2,492	-5,609	-8,200
Total non-budgetary transactions	-969	-2,296	-3,407	-4,650
Financial requirements/surplus (excluding foreign exchange transactions)	1,025	-236	6,765	7,071
Foreign exchange transactions	2,388	4,219	7,990	3,394
Net financial balance	3,413	3,983	14,755	10,465

Table 5

Net financial balance and net borrowings

	December		April to December	
	1997	1998	1997-98	1998-99
	(millions of dollars)			
Net financial balance	3,413	3,983	14,755	10,465
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	6,313	4,141	16,888	5,972
Canada Savings Bonds	-248	48	-2,205	-2,149
Treasury bills	-7,600	900	-26,600	-25,200
Other	-1		159	1,281
Subtotal	-1,536	5,089	-11,758	-20,096
Less: Government's holding of unmatured debt	-24	-630	-52	-479
Total	-1,560	4,459	-11,810	-20,575
Payable in foreign currencies				
Marketable bonds	109		-126	9,226
Notes and loans	0	0	0	0
Canada bills	117	-885	-566	801
Canada notes	-14	-128	-353	-1,075
Total	212	-1,013	-1,045	8,952
Net change in borrowings	-1,348	3,446	-12,855	-11,623
Change in cash balance	2,065	7,429	1,900	-1,158

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- Net GST revenues were up \$0.8 billion, or 5.2 per cent, in line with the growth in consumer demand. Customs import duties were down \$0.3 billion, or 12.3 per cent, as the growth in imports was more than offset by the impact of tariff reductions. Other excise taxes and duties were down \$0.2 billion, or 3.5 per cent, largely due to the reduction in the Air Transportation Tax, effective January 1, 1998, and its elimination effective November 1, 1998.
- Non-tax revenues, consisting of the return on investments and other non-tax revenues, such as fees and proceeds from sales, among others, were up \$0.2 billion or 5.5 per cent.

Within program spending:

- Major transfers to persons were up \$0.5 billion, primarily due to higher elderly benefit payments. Employment insurance benefit payments were up slightly.
- Major transfers to other levels of government were up \$0.2 billion, as higher fiscal transfers were largely offset by higher recoveries under Alternative Payments for Standing Programs. Cash entitlements under the Canada Health and Social Transfer (CHST) were unchanged as current legislation prevents the fiscal year cash entitlement for the period 1997-98 to 2002-03 from falling below \$12.5 billion. However, total CHST entitlements consist of both cash entitlements and tax point transfers. With this cash entitlement floor and a rising value in the tax point transfers, total entitlements under the CHST are increasing.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, was up \$0.6 billion, or 2.0 per cent. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. Subsidies and other transfers were up \$0.1 billion. Most of this increase was

due to the initiatives announced in the February 1998 budget under the Canadian Opportunities Strategy and increased aboriginal-related transfers. Payments to Crown corporations were largely unchanged, while operating and capital expenditures were up 2.9 per cent.

- Public debt charges were up \$0.5 billion, or 1.5 per cent, as a decline in the overall stock of interest-bearing debt was offset by an increase in the average effective interest rate on that debt.

Year-to-date: financial surplus of \$7.1 billion (excluding foreign exchange transactions)

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the government has legislative control.

In contrast, financial requirements/surplus measure the difference between cash coming in to the government and cash going out. Financial requirements/surplus differ from the budgetary balance, as the former includes transactions in loans, investments, and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$4.6 billion in the April to December 1998 period, up \$1.2 billion from the net requirement recorded in the same period in 1997. As a result, there was a financial surplus (excluding foreign exchange transactions) of \$7.1 billion in the first nine months of 1998-99, up \$0.3 billion from the same period in 1997-98.

Table 6

Condensed statement of assets and liabilities

	March 31 1998	December 31 1998	Change
	(millions of dollars)		
Liabilities			
Accounts payable, accruals and allowances			
Accounts payable and accrued liabilities	22,364	12,747	-9,617
Interest and matured debt	10,419	8,672	-1,747
Allowances	10,917	10,917	0
Total accounts payable, accruals and allowances	43,700	32,336	-11,364
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	117,457	120,416	2,959
Canada Pension Plan (net of securities)	4,205	4,146	-59
Other pension and other accounts	5,872	5,880	8
Total pension and other accounts	127,534	130,442	2,908
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	294,583	300,055	5,472
Treasury bills	112,300	87,100	-25,200
Canada Savings Bonds	29,769	27,641	-2,128
Other	3,456	4,737	1,281
Subtotal	440,108	419,533	-20,575
Payable in foreign currencies	27,183	36,136	8,953
Total unmatured debt	467,291	455,669	-11,622
Total interest-bearing debt	594,825	586,111	-8,714
Total liabilities	638,525	618,447	-20,078
Assets			
Cash and accounts receivable	15,813	11,493	-4,320
Foreign exchange accounts	28,968	25,574	-3,394
Loans, investments and advances (net of allowances)	14,036	13,393	-643
Total assets	58,817	50,460	-8,357
Accumulated deficit (net public debt)	579,708	567,987	-11,721

Year-to-date: net financial balance of \$10.5 billion/net borrowings down \$11.6 billion

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. It fulfills this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure. The buying of Canadian

dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions.

Taking all of these factors into account, in the first nine months of 1998-99, there was a net source of funds of \$3.4 billion from foreign exchange transactions, compared to a net source of \$8.0 billion in the first nine months of 1997-98.

Table 7

Debt Servicing and Reduction Account (DSRA)

	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
	(millions of dollars)						
Gross GST collected	29,564	30,516	32,652	36,715	38,048	40,733	46,986
Less:							
Refunds and rebates	12,134	13,145	14,271	17,112	18,874	19,782	24,633
Quarterly low-income credit	2,262	2,503	2,685	2,816	2,799	2,872	2,892
Net GST	15,168	14,868	15,696	16,787	16,375	18,079	19,461
GST penalties and interest received	19	71	90	129	135	159	127
Gains from wind-up of interest in Crown corporations/disposal of shares	2	110			325		
Gifts to Crown	0.4	0.1	0.2	0.5	0.3	0.3	0.176
Proceeds to DSRA	15,190	15,050	15,786	16,916	16,835	18,238	19,588

Source: Public Accounts of Canada

With a budgetary surplus of \$11.7 billion, a net requirement of \$4.6 billion from non-budgetary transactions, and a net source of funds of \$3.4 billion from foreign exchange transactions, the net financial balance recorded a surplus of \$10.5 billion over the April to December 1998 period, compared to a surplus of \$14.8 billion in April to December 1997.

With this net financial balance, coupled with a reduction in cash balances of \$1.2 billion, the government retired \$11.6 billion of market debt in the first nine months of 1998-99. Cash balances at the end of December 1998 were \$9.2 billion.

Debt Servicing and Reduction Account

In June 1991, legislation to establish the Debt Servicing and Reduction Account received Royal Assent. Effective April 1, 1991, all GST revenues net of the applicable input tax credits, rebates, and low-income credit, along with net proceeds from the sale of Crown corporations and gifts to the Crown identified for debt reduction, must, by law, go directly to the Debt Servicing and Reduction Account. The funds in this Account can only be used to pay the cost of servicing the public debt and ultimately to retire debt. The Account is audited on an annual basis by the Auditor General of Canada.

In his "Observations" on the 1996-97 financial statements and in his appearance before the House of Commons Standing Committee on Finance, the Auditor General questioned the need for this Account, given the fundamental concept of the Consolidated Revenue Fund. The government has asked the Committee to review this issue and advise the government.

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February 1999



The Fiscal Monitor

A Publication of the Department of Finance

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Highlights of financial results for January 1999

Budgetary deficit of \$1.3 billion in January 1999

A budgetary deficit of \$1.3 billion was recorded in January 1999, up \$0.4 billion from the deficit of \$0.9 billion recorded in January 1998. As indicated in last month's *Fiscal Monitor*, a deficit was expected in January 1999, given the flow of revenues.

Budgetary revenues were up \$0.1 billion, or 0.7 per cent, in January 1999 on a year-over-year basis as higher personal income tax revenues, reflecting the strong growth in employment at the end of 1998, more than offset declines in corporate income tax revenues, goods and services tax (GST) revenues and non-tax revenues.

On a year-over-year basis, program spending was up \$0.4 billion, or 4.9 per cent. This increase was primarily attributable to the initiatives announced in the February 1998 budget under the Canadian Opportunities Strategy, retroactive wage adjustments following the signing of a number of collective agreements and the timing of payments to Crown corporations.

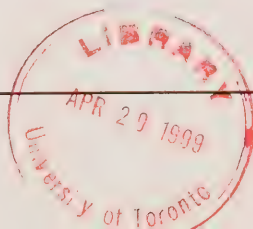
Public debt charges were marginally higher, as a slight increase in the average effective interest rate offset a decline in interest-bearing debt.

Year-to-date: budgetary surplus of \$10.4 billion

Over the first ten months (April to January) of the 1998-99 fiscal year, the budgetary surplus was estimated at \$10.4 billion, up \$1.2 billion from the surplus of \$9.2 billion recorded in the same period of 1997-98, but down from the surplus of \$11.7 billion to the end of December 1998. The year-over-year improvement was largely due to higher personal income tax collections in May 1998, primarily relating to taxes owing with respect to earnings in the 1997 taxation year. There has been no net improvement in the fiscal balance over the other nine months of 1998-99.

Economic developments over the balance of the current fiscal year are expected to lower the surplus to date by about \$2 billion, primarily reflecting further declines in corporate income tax revenues and higher Equalization transfers. The 1999 budget announced initiatives totalling \$4.2 billion which will be charged to 1998-99. In addition, the full cost of policy initiatives announced prior to the 1999 budget has yet to be reflected in the year-to-date results.

Taking all of these factors into consideration, a balanced budget, including the Contingency Reserve of \$3 billion, is expected for 1998-99. To the extent that the Contingency Reserve is not required, it will be used to pay down debt.



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Table 1

Summary statement of transactions

	January		April to January	
	1998	1999	1997-98	1998-99
(millions of dollars)				
Budgetary transactions				
Revenues	11,750	11,834	124,642	128,012
Program spending	-9,152	-9,599	-81,267	-82,997
Operating surplus	2,598	2,235	43,375	45,015
Public debt charges	-3,521	-3,537	-34,126	-34,595
Budgetary balance (deficit/surplus)	-923	-1,302	9,249	10,420
Non-budgetary transactions	2,529	2,447	-882	-2,204
Financial requirements/surplus (excluding foreign exchange transactions)	1,606	1,145	8,367	8,216
Foreign exchange transactions	-2,018	-3,841	5,972	-446
Net financial balance	-412	-2,696	14,339	7,770
Net change in borrowings	-1,658	-4,753	-14,513	-16,377
Net change in cash balances	-2,072	-7,449	-174	-8,607

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

Over the April 1998 to January 1999 period, budgetary revenues were up \$3.4 billion (2.7 per cent), program spending was up \$1.7 billion (2.1 per cent), while public debt charges were \$0.5 billion (1.4 per cent) higher, compared to the same period in 1997-98.

Within budgetary revenues:

- Personal income tax collections were up \$2.5 billion, or 4.2 per cent. This was attributable to continued increases in receipts from monthly deductions from employment income, due to increases in the number of people employed, as well as higher taxes paid on filing, reflecting the strong income growth in the 1997 taxation year. The overall growth in personal income tax collections has been dampened by a number of factors, including a strong increase in refunds (up \$1.2 billion) and a net transfer of \$0.7 billion to employment insurance premium revenues. In addition,

payments under the Canada Child Tax Benefit, which are netted from personal income tax revenues, are up \$0.3 billion, reflecting the additional funding announced in the 1996 and 1997 budgets.

- Corporate income tax revenues were up \$0.3 billion, or 1.9 per cent. Although revenues were up strongly in the first eight months of this fiscal year, year-over-year declines have been reported in each of the last two months. Lower revenues are expected over the balance of the fiscal year, reflecting the decline in corporate profits in 1998. Corporations are required to file monthly instalments based on either their last year's actual tax liability or their current year's estimated tax liability. Corporations have 60 days after their year end to make settlement payments for any amounts owing. This results in a substantial proportion of corporate income tax collections being

Table 2

Budgetary revenues

	January		April to January		Per cent change
	1998	1999	1997-98	1998-99	
	(millions of dollars)				(%)
Income taxes					
Personal income tax	5,552	6,066	61,069	63,610	4.2
Corporate income tax	1,759	1,594	14,895	15,181	1.9
Other income tax revenue	409	569	2,017	2,290	13.5
Total income tax	7,720	8,229	77,981	81,081	4.0
Employment insurance premium revenues	1,433	1,457	15,298	15,450	1.0
Excise taxes and duties					
Goods and services tax	1,202	1,022	16,744	17,370	3.7
Customs import duties	177	180	2,249	1,998	-11.2
Sales and excise taxes	700	746	7,354	7,166	-2.6
Total excise taxes and duties	2,079	1,948	26,347	26,534	0.7
Total tax revenues	11,232	11,634	119,626	123,065	2.9
Non-tax revenues	518	200	5,016	4,947	-1.4
Total budgetary revenues	11,750	11,834	124,642	128,012	2.7

received in the months of February and March, ranging from 25 to 40 per cent of total collections for the year as a whole. Monthly instalments for 1997 were largely based on 1996 tax liabilities. However, tax liabilities for 1997 were substantially higher than in 1996, which led to collections in the settlement period (February/March 1998) rising nearly 30 per cent over the 1997 settlement period. As a result, instalment payments for 1997 understated the actual tax liability for the year as a whole. Consequently, instalments to the end of November 1998 were increased to reflect 1997 tax liabilities, thereby accounting for the current strength in corporate income tax collections. With the decline in corporate profits in 1998, settlement payments in February/March 1999 are expected to be lower than those recorded in February/March 1998.

- Employment insurance premium revenues were up \$0.2 billion, or 1.0 per cent. This increase was attributable to net transfers from personal income tax revenues and an increase in the number of people employed. In December 1997, there was a transfer to personal income tax revenues, reflecting over-payments with respect to the 1996 taxation year, whereas in October 1998, there was a transfer from personal income tax revenues, due to under-payments with respect to the 1997 taxation year. Dampening the impact of these factors was the decline in premium rates. The employee premium rate (per \$100 of insurable earnings) was reduced from \$2.90 for 1997 to \$2.70 for 1998 (with a corresponding decline in the employer rate). For 1999, the employee rate has been reduced to \$2.55.

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- Net GST revenues were up \$0.6 billion, or 3.7 per cent. Monthly revenues to date continue to be extremely volatile, primarily due to the timing of refunds. Although gross collections have increased in line with the growth in consumer demand, larger increases in refunds and rebates have depressed the growth in net revenues.
- Customs import duties were down \$0.3 billion, or 11.2 per cent, as the growth in imports was more than offset by the impact of tariff reductions. Other excise taxes and duties were down \$0.2 billion, or 2.6 per cent, largely due to the reduction in the Air Transportation Tax, effective January 1, 1998, and its elimination effective November 1, 1998.
- Non-tax revenues, consisting of the return on investments and other non-tax revenues, such as fees and proceeds from sales, were down \$0.1 billion, or 1.4 per cent.

Within program spending:

- Major transfers to persons were up \$0.5 billion, primarily due to higher elderly benefit payments. Employment insurance benefit payments were up slightly.
- Major transfers to other levels of government were up \$0.2 billion, as higher fiscal transfers were partially offset by higher recoveries under Alternative Payments for Standing Programs. Cash entitlements under the Canada Health and Social Transfer (CHST) were unchanged as current legislation prevents the fiscal year cash entitlement from falling below \$12.5 billion. However, total CHST entitlements consist of both cash

entitlements and tax point transfers. With this cash entitlement floor and a rising value in the tax point transfers, total entitlements under the CHST are increasing.

- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, was up \$1.0 billion, or 2.7 per cent. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. Subsidies and other transfers were up \$0.2 billion. This increase was due to the initiatives announced in the February 1998 budget under the Canadian Opportunities Strategy, offset in part by the termination of subsidies to NAV CANADA, resulting from the elimination of the Air Transportation Tax. Payments to Crown corporations were up \$0.1 billion. Operating and capital expenditures, including defence, were up \$0.7 billion, or 3.3 per cent.

Public debt charges were up \$0.5 billion, or 1.4 per cent, as a decline in the overall stock of interest-bearing debt was offset by an increase in the average effective interest rate on that debt.

Year-to-date: financial surplus of \$8.2 billion (excluding foreign exchange transactions)

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the government has legislative control.

Table 3

Budgetary expenditures

	January		April to January		Per cent change
	1998	1999	1997-98	1998-99	
	(millions of dollars)				(%)
Transfer payments to:					
Persons					
Elderly benefits	1,863	1,897	18,437	18,904	2.5
Employment insurance benefits	1,178	1,162	9,225	9,263	0.4
Total	3,041	3,059	27,662	28,167	1.8
Other levels of government					
Canada Health and Social Transfer	1,042	1,042	10,416	10,417	0.0
Fiscal transfers	810	862	7,759	8,045	3.7
Alternative Payments for Standing Programs	-180	-187	-1,784	-1,867	4.7
Total	1,672	1,717	16,391	16,595	1.2
Direct program spending					
Subsidies and other transfers					
Agriculture	136	46	543	520	-4.2
Foreign Affairs	205	280	1,319	1,267	-3.9
Health	52	87	660	808	22.4
Human Resources Development	124	305	1,129	1,685	49.2
Indian and Northern Development	233	160	3,174	3,167	-0.2
Industry and Regional development	88	113	1,181	1,168	-1.1
Veterans Affairs	116	116	1,139	1,140	0.1
Other	278	218	2,307	1,869	-19.0
Total	1,232	1,325	11,452	11,624	1.5
Payments to Crown corporations					
Canadian Broadcasting Corporation	74	65	746	824	10.5
Canada Mortgage and Housing Corporation	100	180	1,403	1,490	6.2
Other	73	108	903	841	-6.9
Total	247	353	3,052	3,155	3.4
Operating and capital expenditures					
Defence	955	932	7,811	7,484	-4.2
All other departmental expenditures	2,005	2,213	14,899	15,972	7.2
Total	2,960	3,145	22,710	23,456	3.3
Total direct program spending	4,439	4,823	37,214	38,235	2.7
Total program expenditures	9,152	9,599	81,267	82,997	2.1
Public debt charges	3,521	3,537	34,126	34,595	1.4
Total budgetary expenditures	12,673	13,136	115,393	117,592	1.9
Memorandum item:					
Total transfers	5,945	6,101	55,505	56,386	1.6

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Table 4

The budgetary balance and financial requirements/surplus

	January		April to January	
	1998	1999	1997-98	1998-99
	(millions of dollars)			
Budgetary balance (deficit/surplus)	-923	-1,302	9,249	10,420
Loans, investments and advances				
Crown corporations	239	150	879	1,245
Other	121	71	72	-382
Total	360	221	951	863
Specified purpose accounts				
Canada Pension Plan Account	-184	744	-387	684
Superannuation accounts	354	360	2,410	3,319
Other	28	-5	-217	3
Total	198	1,099	1,806	4,006
Other transactions	1,971	1,127	-3,639	-7,073
Total non-budgetary transactions	2,529	2,447	-882	-2,204
Financial requirements/surplus (excluding foreign exchange transactions)	1,606	1,145	8,367	8,216
Foreign exchange transactions	-2,018	-3,841	5,972	-446
Net financial balance	-412	-2,696	14,339	7,770

Table 5

Net financial balance and net borrowings

	January		April to January	
	1998	1999	1997-98	1998-99
	(millions of dollars)			
Net financial balance	-412	-2,696	14,339	7,770
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds			16,888	5,972
Canada Savings Bonds	-364	526	-2,569	-1,623
Treasury bills	-1,400	-3,300	-28,000	-28,500
Other		-894	159	387
Subtotal	-1,764	-3,668	-13,522	-23,764
Less: Government's holding of unmatured debt	101	48	50	-432
Total	-1,663	-3,620	-13,472	-24,196
Payable in foreign currencies				
Marketable bonds		455	-126	9,681
Notes and loans	0	0	0	0
Canada bills	5	-1,588	-562	-787
Canada notes			-353	-1,075
Total	5	-1,133	-1,041	7,819
Net change in borrowings	-1,658	-4,753	-14,513	-16,377
Change in cash balance	-2,070	-7,449	-174	-8,607

Table 6

Condensed statement of assets and liabilities

	March 31, 1998	January 31, 1999	Change
	(millions of dollars)		
Liabilities			
Accounts payable, accruals and allowances			
Accounts payable and accrued liabilities	22,364	11,834	-10,530
Interest and matured debt	10,419	9,610	-809
Allowances	10,917	10,917	0
Total accounts payable, accruals and allowances	43,700	32,361	-11,339
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	117,457	120,775	3,318
Canada Pension Plan (net of securities)	4,205	4,890	685
Other pension and other accounts	5,872	5,875	3
Total pension and other accounts	127,534	131,540	4,006
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	294,583	300,055	5,472
Treasury bills	112,300	83,800	-28,500
Canada Savings Bonds	29,769	28,215	-1,554
Other	3,456	3,843	387
Subtotal	440,108	415,913	-24,195
Payable in foreign currencies	27,183	35,003	7,820
Total unmaturred debt	467,291	450,916	-16,375
Total interest-bearing debt	594,825	582,456	-12,369
Total liabilities	638,525	614,817	-23,708
Assets			
Cash and accounts receivable	15,813	2,942	-12,871
Foreign exchange accounts	28,968	29,414	446
Loans, investments and advances (net of allowances)	14,036	13,173	-863
Total assets	58,817	45,529	-13,288
Accumulated deficit (net public debt)	579,708	569,288	-10,420

In contrast, financial requirements/surplus measure the difference between cash coming in to the government and cash going out. Financial requirements/surplus differ from the budgetary balance as the former includes transactions in loans, investments, and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$2.2 billion in the April 1998 to January 1999 period, up \$1.3 billion from the net requirement in the same period of 1997-98. As a result, there was a financial surplus (excluding foreign exchange transactions) of \$8.2 billion in the April 1998 to January 1999 period, down slightly from the \$8.4 billion recorded in the same period of 1997-98.

**Year-to-date: net financial balance
of \$7.8 billion/net borrowings
down \$16.4 billion**

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. It fulfills this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions.

Taking all of these factors into account, in the April 1998 to January 1999 period, there was a net requirement of funds of \$0.4 billion from foreign exchange transactions, compared to a net source of \$6.0 billion in the same period of 1997-98. With a budgetary surplus of \$10.4 billion, a net requirement of \$2.2 billion from non-budgetary transactions and a net requirement of \$0.4 billion from foreign exchange transactions, the net financial balance recorded a surplus of \$7.8 billion over the April 1998 to January 1999 period, compared to a surplus of \$14.3 billion in the same period of 1997-98.

With this net financial balance, coupled with a reduction in cash balances of \$8.6 billion, the government retired \$16.4 billion of market debt in the April 1998 to January 1999 period. Cash balances at the end of January 1999 were \$1.8 billion.



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The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for February 1999

Budgetary surplus of \$0.3 billion in February 1999

There was a budgetary surplus of \$0.3 billion in February 1999, down nearly \$2 billion from the surplus of \$2.3 billion reported in February 1998. This year-over-year decline in the surplus was attributable to lower corporate income tax revenues and higher liabilities related to transfers to provinces under the Equalization program.

On a year-over-year basis, budgetary revenues declined \$0.7 billion, primarily reflecting lower corporate income tax revenues. Corporations are required to make final settlement payments within 60 days of the end of their taxation year. Most large corporations' taxation year ends in December, which means that final settlements with respect to the taxation year just ended are received by Revenue Canada in late February and early March. With the decline in corporate profits in 1998, final settlement payments are correspondingly lower. Although personal income tax revenues were also lower, part of this decline was attributable to a transfer of funds to employment insurance premium revenues, relating to underpayments with respect to 1998. Gross personal income tax revenues include withholdings for employment insurance premiums, among others. Allocation to the various revenue components is based on estimates, with adjustments, as required, when new information becomes available.

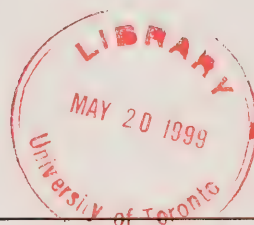
This transfer more than explains the increase in employment insurance premium revenues. Goods and services tax (GST) revenues were up strongly, but this was largely attributable to the impact of slower processing of refunds in February 1999 due to labour disruptions.

Program spending was up \$1.3 billion from February 1998, attributable to higher liabilities relating to Equalization entitlements to the provinces, both for 1998-99 and prior years. As noted in the 1999 budget, the higher entitlements resulted from data revisions based on recently received tax data. Direct program spending was unchanged.

Public debt charges were marginally lower, reflecting a decline in the stock of interest-bearing debt, as the average effective interest rate on that debt was unchanged.

Year-to-date: budgetary surplus of \$10.8 billion

Over eleven months (April 1998 to February 1999), the budgetary surplus was estimated at \$10.8 billion, down \$0.8 billion from the surplus of \$11.5 billion reported in the -same period of 1997-98. The year-over-year decline in the surplus was largely due to higher liabilities related to Equalization entitlements to the provinces and lower corporate income tax revenues.



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Table 1

Summary statement of transactions

	February		April to February	
	1998	1999	1997-98	1998-99
(millions of dollars)				
Budgetary transactions				
Revenues	15,234	14,540	139,875	142,556
Program spending	-9,559	-10,842	-90,815	-93,839
Operating surplus	5,675	3,698	49,060	48,717
Public debt charges	-3,386	-3,356	-37,512	-37,951
Budgetary balance (deficit/surplus)	2,289	342	11,548	10,766
Non-budgetary transactions	664	956	-227	-1,253
Financial requirements/surplus (excluding foreign exchange transactions)	2,953	1,298	11,321	9,513
Foreign exchange transactions	-4,941	1,814	1,031	1,368
Net financial balance	-1,988	3,112	12,352	10,881
Net change in borrowings	2,455	2,154	-12,057	-14,222
Net change in cash balances	467	5,266	295	-3,341

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

As noted in the 1999 budget, economic and policy developments over the balance of the year are expected to reduce the cumulative surplus to date. The 1999 budget announced initiatives totalling \$4.2 billion which will be charged to 1998-99. In addition, the full cost of policy initiatives announced prior to the 1999 budget has yet to be reflected in the year-to-date results. Finally, based on the traditional timing of receipts and payments, the cumulative surplus is expected to be reduced by a further \$2.5 billion over the balance of the current fiscal year.

Taking all of these factors into consideration, a balanced budget, including the Contingency Reserve of \$3 billion, is expected for 1998-99. To the extent that the Contingency Reserve is not required, it will be used to pay down debt.

Over the April 1998 to February 1999 period, budgetary revenues were up \$2.7 billion (1.9 per cent), program spending was up \$3 billion (3.3 per cent), while public debt charges were \$0.4 billion (1.2 per cent) higher, compared to the same period of 1997-98.

Within budgetary revenues:

- Personal income tax revenues were up \$1.8 billion, or 2.6 per cent. This was due to continued increases in receipts from monthly deductions from employment income, due to increases in the number of people employed, as well as higher taxes paid on filing, reflecting the strong income growth in the 1997 taxation year. However, the impact of these factors on the overall growth in personal income tax revenues has been dampened by higher refunds (up \$1.2 billion)

Table 2

Budgetary revenues

	February		April to February		Per cent change
	1998	1999	1997-98	1998-99	
	(millions of dollars)				(%)
Income taxes					
Personal income tax	7,287	6,514	68,355	70,124	2.6
Corporate income tax	3,283	2,583	18,178	17,764	-2.3
Other income tax revenue	229	150	2,245	2,440	8.7
Total income tax	10,799	9,247	88,778	90,328	1.7
Employment insurance premium revenues	1,678	2,131	16,976	17,580	3.6
Excise taxes and duties					
Goods and services tax	1,807	2,152	18,551	19,522	5.2
Customs import duties	111	222	2,360	2,220	-5.9
Sales and excise taxes	611	608	7,965	7,775	-2.4
Total excise taxes and duties	2,529	2,982	28,876	29,517	2.2
Total tax revenues	15,006	14,360	134,630	137,425	2.1
Non-tax revenues	228	180	5,245	5,131	-2.2
Total budgetary revenues	15,234	14,540	139,875	142,556	1.9

and a net transfer of \$1 billion to employment insurance premium revenues, relating to prior-year adjustments and underpayments with respect to the 1998 taxation year. In addition, payments under the Canada Child Tax Benefit, which are netted from personal income tax revenues, are up \$0.4 billion, reflecting the additional funding announced in the 1996 and 1997 budgets.

- Corporate income tax revenues were down \$0.4 billion, or 2.3 per cent. Throughout most of 1998-99, revenues were up strongly, reflecting the impact of remittance procedures and not necessarily underlying developments in corporate profits, as corporations are required to file monthly instalments based on either their last year's actual tax liability or their current year's estimated tax liability.

Corporations have 60 days after their year end to make settlement payments for any amounts owing. This results in a substantial proportion of corporate income tax collections being received in the months of February and March, ranging from 25 to 40 per cent of total collections for the year as a whole. With the decline in corporate profits in 1998, settlement payments in February/March 1999 are expected to be lower than those recorded in February/March 1998.

- Employment insurance premium revenues were up \$0.6 billion, or 3.6 per cent. This increase was attributable to net transfers from personal income tax revenues and an increase in the number of people employed. In December 1997, there was a transfer to personal income tax revenues, reflecting

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overpayments with respect to the 1996 taxation year, whereas in both October 1998 and February 1999, there were transfers from personal income tax revenues, due to underpayments with respect to previous taxation years. Dampening the impact of these factors was the decline in premium rates. The employee premium rate (per \$100 of insurable earnings) was reduced from \$2.90 for 1997 to \$2.70 for 1998 (with a corresponding decline in the employer rate). For 1999, the employee rate has been reduced to \$2.55.

- Net GST revenues were up \$1.0 billion, or 5.2 per cent, broadly in line with the growth in the applicable tax base. Customs import duties were down \$0.1 billion, or 5.9 per cent, as the growth in imports was more than offset by the impact of tariff reductions. Other excise taxes and duties were down \$0.2 billion, or 2.4 per cent, largely due to the reduction in the Air Transportation Tax, effective January 1, 1998, and its elimination effective November 1, 1998.
- Non-tax revenues, consisting of the return on investments and other non-tax revenues, such as fees and proceeds from sales, were down \$0.1 billion, or 2.2 per cent.

Within program spending:

- Major transfers to persons were up \$0.5 billion, primarily due to higher elderly benefit payments. Employment insurance benefit payments were virtually unchanged.
- Major transfers to other levels of government were up \$1.4 billion, reflecting increased Equalization entitlements. As noted in the 1999 budget, data revisions, primarily

resulting from much stronger economic growth in Ontario than in the Equalization-receiving provinces, resulted in large upward revisions to Equalization entitlements. These revisions relate to both 1998-99 and to prior years. Cash entitlements under the Canada Health and Social Transfer (CHST) were unchanged as current legislation prevents the fiscal year cash entitlement from falling below \$12.5 billion. In the 1999 budget, the federal government announced a one-time CHST supplement of \$3.5 billion, which will be accounted for in 1998-99, following passage of enabling legislation.

- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, was up \$1.0 billion, or 2.5 per cent. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. Subsidies and other transfers were down \$0.1 billion, primarily reflecting the termination of subsidies to NAV CANADA, resulting from the elimination of the Air Transportation Tax. Payments to Crown corporations were up \$0.1 billion. Operating and capital expenditures, including defence, were up \$1.0 billion, largely attributable to the impact of retroactive wage settlements.

Public debt charges were up \$0.4 billion, or 1.2 per cent, as the decline in the overall stock of interest-bearing debt was offset by an increase in the average effective interest rate on that debt. The latter reflects not only a slight increase in interest rates but also changes in the composition of interest-bearing debt to longer-term maturities.

Table 3
Budgetary expenditures

	February		April to February		Per cent change
	1998	1999	1997-98	1998-99	
	(millions of dollars)				(%)
Transfer payments to:					
Persons					
Elderly benefits	1,880	1,924	20,317	20,829	2.5
Employment insurance benefits	1,193	1,185	10,418	10,448	0.3
Total	3,073	3,109	30,735	31,277	1.8
Other levels of government					
Canada Health and Social Transfer	1,042	1,042	11,458	11,458	0.0
Fiscal transfers	1,143	2,395	8,902	10,440	17.3
Alternative Payments for Standing Programs	-180	-187	-1,964	-2,054	4.6
Total	2,005	3,250	18,396	19,845	7.9
Direct program spending					
Subsidies and other transfers					
Agriculture	111	47	654	567	-13.3
Foreign Affairs	175	138	1,495	1,405	-6.0
Health	92	55	752	863	14.8
Human Resources Development	221	144	1,350	1,829	35.5
Indian and Northern Development	265	182	3,439	3,349	-2.6
Industry and Regional Development	202	224	1,382	1,392	0.7
Veterans Affairs	115	115	1,254	1,255	0.1
Other	238	218	2,545	2,087	-18.0
Total	1,419	1,123	12,871	12,747	-1.0
Payments to Crown corporations					
Canadian Broadcasting Corporation	56	45	802	869	8.4
Canada Mortgage and Housing Corporation	125	135	1,528	1,625	6.3
Other	91	102	994	943	-5.1
Total	272	282	3,324	3,437	3.4
Operating and capital expenditures					
Defence	949	953	8,759	8,436	-3.7
All other departmental expenditures	1,841	2,124	16,730	18,097	8.2
Total	2,790	3,077	25,489	26,533	4.1
Total direct program spending	4,481	4,483	41,684	42,717	2.5
Total program expenditures	9,559	10,842	90,815	93,839	3.3
Public debt charges	3,386	3,356	37,512	37,951	1.2
Total budgetary expenditures	12,945	14,198	128,327	131,790	2.7
Memorandum item:					
Total transfers	6,497	7,482	62,002	63,869	3.0

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Table 4

The budgetary balance and financial requirements/surplus

	February		April to February	
	1998	1999	1997-98	1998-99
	(millions of dollars)			
Budgetary balance (deficit/surplus)	2,289	342	11,548	10,766
Loans, investments and advances				
Crown corporations	216	66	1,083	1,311
Other	-20	125	53	-257
Total	196	191	1,136	1,054
Specified purpose accounts				
Canada Pension Plan Account	42	555	-344	1,240
Superannuation accounts	252	324	2,662	3,643
Other	65	-1	-150	2
Total	359	878	2,168	4,885
Other transactions	109	-113	-3,531	-7,192
Total non-budgetary transactions	664	956	-227	-1,253
Financial requirements/surplus (excluding foreign exchange transactions)	2,953	1,298	11,321	9,513
Foreign exchange transactions	-4,941	1,814	1,031	1,368
Net financial balance	-1,988	3,112	12,352	10,881

Table 5

Net financial balance and net borrowings

	February		April to February	
	1998	1999	1997-98	1998-99
	(millions of dollars)			
Net financial balance	-1,988	3,112	12,352	10,881
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	-3,100	2,300	13,788	8,272
Canada Savings Bonds	-186	-201	-2,755	-1,825
Treasury bills	1,800	2,200	-26,200	-26,300
Other	-169	-279	-10	108
Subtotal	-1,655	4,020	-15,177	-19,745
Less: Government's holding of unmatured debt	94	558	145	127
Total	-1,561	4,578	-15,032	-19,618
Payable in foreign currencies				
Marketable bonds	2,906	-2,801	2,780	6,880
Notes and loans	0	0	0	0
Canada bills	1,110	377	548	-409
Canada notes			-353	-1,075
Total	4,016	-2,424	2,975	5,396
Net change in borrowings	2,455	2,154	-12,057	-14,222
Change in cash balance	467	5,266	295	-3,341

Table 6

Condensed statement of assets and liabilities

	March 31, 1998	February 28, 1999	Change
	(millions of dollars)		
Liabilities			
Accounts payable, accruals and allowances			
Accounts payable and accrued liabilities	22,364	10,885	-11,479
Interest and matured debt	10,419	7,147	-3,272
Allowances	10,917	10,917	0
Total accounts payable, accruals and allowances	43,700	28,949	-14,751
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	117,457	121,099	3,642
Canada Pension Plan (net of securities)	4,205	5,445	1,240
Other pension and other accounts	5,872	5,874	2
Total pension and other accounts	127,534	132,418	4,884
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	294,583	302,855	8,272
Treasury bills	112,300	86,000	-26,300
Canada Savings Bonds	29,769	28,071	-1,698
Other	3,456	3,564	108
Subtotal	440,108	420,490	-19,618
Payable in foreign currencies			
Marketable bonds	14,651	23,042	8,391
Canada bills	9,356	8,947	-409
Canada notes	3,176	590	-2,586
Subtotal	27,183	32,580	5,397
Total unmaturred debt	467,291	453,070	-14,221
Total interest-bearing debt	594,825	585,488	-9,337
Total liabilities	638,525	614,437	-24,088
Assets			
Cash and accounts receivable	15,813	4,914	-10,899
Foreign exchange accounts	28,968	27,600	-1,368
Loans, investments and advances (net of allowances)	14,036	12,982	-1,054
Total assets	58,817	45,496	-13,321
Accumulated deficit (net public debt)	579,708	568,941	-10,767

Year-to-date: financial surplus of \$9.5 billion (excluding foreign exchange transactions)

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the government has legislative control.

In contrast, financial requirements/surplus measure the difference between cash coming in to the government and cash going out. Financial requirements/surplus differ from the budgetary balance, as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions.

The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$1.3 billion in the April 1998 to February 1999 period, up \$1.0 billion from the net requirement in the same period of 1997-98. This increase primarily reflects increased payments to provinces under tax collection agreements, pertaining to underpayments relating to previous taxation years, and the payment to the Canada Millennium Scholarship Foundation, for which the liability had been established in 1997-98. These payments were, in part, offset by higher funds in the superannuation accounts, primarily relating to the transfer in 1997-98 to NAV CANADA, which dampened funds in 1997-98, and a higher source of funds in the Canada Pension Plan Account, reflecting the timing of receipts. As a result, there was a financial surplus (excluding foreign exchange transactions) of \$9.5 billion in the April 1998 to February 1999 period, down slightly from the \$11.3-billion surplus recorded in the same period of 1997-98.

**Year-to-date: net financial balance
of \$10.9 billion/net borrowings
down \$14.2 billion**

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market.

It fulfills this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions.

Taking all of these factors into account, in the April 1998 to February 1999 period, there was a net source of funds of \$1.4 billion from foreign exchange transactions, compared to a net source of \$1.0 billion in the same period of 1997-98.

With a budgetary surplus of \$10.8 billion, a net requirement of \$1.3 billion from non-budgetary transactions and a net source of funds of \$1.4 billion from foreign exchange transactions, the net financial balance recorded a surplus of \$10.9 billion over the April 1998 to February 1999 period, compared to a surplus of \$12.4 billion in the same period of 1997-98.

With this financial surplus, coupled with a reduction in cash balances of \$3.3 billion, the government retired \$14.2 billion of market debt in the April 1998 to February 1999 period. Cash balances at the end of February 1999 were \$7.0 billion.



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The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for March 1999

Year-to-date: budgetary surplus of \$9.1 billion

With a deficit of \$1.7 billion in March 1999, the budgetary surplus over the 12 months (April 1998 to March 1999) was estimated at \$9.1 billion, down slightly from the surplus of \$9.2 billion reported in the same period of 1997-98. Budgetary revenues were up \$2.8 billion, or 1.8 per cent, program spending was up \$2.6 billion, or 2.5 per cent, while public debt charges increased \$0.3 billion, or 0.8 per cent.

Final results to come in the fall

The financial results for the April 1998 to March 1999 period are not the final results for the 1998-99 fiscal year. Still to come are the "end-of-year accounting" adjustments.

Consistent with government accounting principles, these "end-of-year accounting" adjustments incorporate increases to program spending to include the costs of liabilities incurred during the fiscal year for which no payments were made in 1998-99. For example, the 1999 budget announcement of a one-time cash supplement of \$3.5 billion to the Canada Health and Social Transfer (CHST) will be booked in the "end-of-year accounting" period, following passage of legislation. In addition, adjustments are made to include liabilities incurred by departments for goods and services received in late 1998-99 but for which payments were made in the April/May 1999 period. Based on previous years' experience, such adjustments could range between \$2.5 and \$3.5 billion. Together with the CHST cash supplement, this would reduce the surplus to the end of March 1999 by \$6 to \$7 billion.

These adjustments, coupled with expected developments in February and March 1999 and the inclusion of \$3 billion for the Contingency

Reserve, underlie the balanced budget estimate in the February 1999 budget for 1998-99.

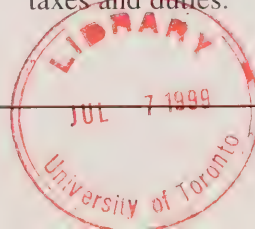
However, budgetary revenues to the end of March 1999 were somewhat weaker than had been expected at the time of the 1999 budget. This is especially true for corporate income tax revenues, where higher-than-expected refunds in March 1999 will result in final collections coming in lower than estimated at the time of the budget. Unless there are offsetting adjustments in the other revenue components, once final adjustments are made for cash received in March but not deposited until April, budgetary revenues should be lower than estimated in the 1999 budget. Final audited results will be released in the fall.

Budgetary deficit of \$1.7 billion in March 1999

There was a budgetary deficit of \$1.7 billion in March 1999, down nearly \$0.7 billion from the deficit of \$2.3 billion reported in March 1998.

On a year-over-year basis, budgetary revenues increased \$0.1 billion, as lower corporate income tax revenues, customs import duties and excise taxes and duties were more than offset by increases in the other major components.

- The decline in corporate income tax revenues was primarily due to refunds with respect to taxation year 1998, reflecting the decline in corporate profits.
- The decline in customs import duties reflected timing differences in the receipt of duties between the two periods, while the elimination of the Air Transportation Tax accounted for all of the decline in excise taxes and duties.



revisions relate to both 1998-99 and to prior years. Cash entitlements under the CHST were unchanged as current legislation prevents the fiscal year cash entitlement from falling below \$12.5 billion. In the 1999 budget, the federal government announced a one-time CHST supplement of \$3.5 billion, which will be accounted for in 1998-99 following passage of enabling legislation.

- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, was up \$0.6 billion, or 1.3 per cent. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. Subsidies and other transfers were down \$0.7 billion, in part reflecting the termination of subsidies to NAV CANADA, resulting from the elimination of the Air Transportation Tax. The increase in transfers by Human Resources Development Canada was attributable to the initiatives announced in the February 1998 budget under the Canadian Opportunities Strategy. Payments to Crown corporations were up \$0.1 billion. Operating and capital expenditures, including defence, were up \$1.2 billion, largely attributable to the impact of retroactive wage settlements.

Public debt charges up \$0.3 billion in April 1998 to March 1999 period

Public debt charges were up \$0.3 billion, or 0.8 per cent, as the decline in the overall stock of interest-bearing debt was offset by an increase in the average effective interest rate on that debt. The latter reflects not only a slight increase in interest rates but also changes in the composition of interest-bearing debt towards longer-term maturities.

Financial surplus of \$10.8 billion (excluding foreign exchange transactions) in 1998-99

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred,

regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the government has legislative control.

In contrast, financial requirements/surplus measure the difference between cash coming in to the government and cash going out. Financial requirements/surplus differ from the budgetary balance, as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net source of funds amounting to \$1.7 billion in the April 1998 to March 1999 period, down from a net source of \$3.5 billion in the same period of 1997-98. This decline primarily reflects increased payments to provinces under the tax collection agreements, pertaining to underpayments relating to previous taxation years, and the payment to the Canada Millennium Scholarship Foundation, for which the liability had been established in 1997-98. These payments were, in part, offset by higher funds in the superannuation accounts, primarily relating to the transfer of funds in 1997-98 to NAV CANADA, which dampened the net source of funds in 1997-98, and a higher source of funds in the Canada Pension Plan Account.

As a result, there was a financial surplus (excluding foreign exchange transactions) of \$10.8 billion in the April 1998 to March 1999 period, down slightly from the \$12.7-billion surplus recorded in the same period of 1997-98. Although final budgetary results will not be available until the fall of 1999, the results for the financial surplus for the April to March period do not differ significantly from the final audited results. The preliminary outcome for the financial surplus for 1998-99 was slightly lower than the February 1999 budget estimate of \$11.5 billion, primarily due to timing of payments.

Table 3
Budgetary expenditures

	March		April to March		Per cent
	1998	1999	1997-98	1998-99	change
	(millions of dollars)				(%)
Transfer payments to:					
Persons					
Elderly benefits	1,894	1,937	22,212	22,765	2.5
Employment insurance benefits	1,479	1,323	11,897	11,772	-1.1
Total	3,373	3,260	34,109	34,537	1.3
Other levels of government					
Canada Health and Social Transfer	1,042	1,042	12,500	12,500	0.0
Fiscal transfers	827	790	9,729	11,231	15.4
Alternative Payments for Standing Programs	-156	-93	-2,120	-2,147	1.3
Total	1,713	1,739	20,109	21,584	7.3
Direct program spending					
Subsidies and other transfers					
Agriculture	150	82	804	649	-19.3
Foreign Affairs	356	230	1,851	1,635	-11.7
Health	81	93	833	955	14.6
Human Resources Development	272	179	1,622	2,008	23.8
Indian and Northern Development	221	340	3,660	3,689	0.8
Industry and Regional Development	292	272	1,674	1,664	-0.6
Veterans Affairs	114	117	1,368	1,372	0.3
Other	1,480	1,058	4,025	3,144	-21.9
Total	2,966	2,371	15,837	15,116	-4.6
Payments to Crown corporations					
Canadian Broadcasting Corporation	61	27	863	896	3.8
Canada Mortgage and Housing Corporation	135	175	1,663	1,800	8.2
Other	86	100	1,080	1,043	-3.4
Total	282	302	3,606	3,739	3.7
Operating and capital expenditures					
Defence	994	1,072	9,752	9,508	-2.5
All other departmental expenditures	2,262	2,385	19,004	20,483	7.8
Total	3,256	3,457	28,756	29,991	4.3
Total direct program spending	6,504	6,130	48,199	48,846	1.3
Total program expenditures	11,590	11,129	102,417	104,967	2.5
Public debt charges	3,505	3,411	41,016	41,363	0.8
Total budgetary expenditures	15,095	14,540	143,433	146,330	2.0
Memorandum item:					
Total transfers	8,052	7,370	70,055	71,237	1.7

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Table 4

The budgetary balance and financial requirements/surplus

	March		April to March	
	1998	1999	1997-98	1998-99
	(millions of dollars)			
Budgetary balance (deficit/surplus)	-2,343	-1,672	9,194	9,095
Loans, investments and advances				
Crown corporations	149	301	1,243	1,613
Other		-145	53	-403
Total	149	156	1,296	1,210
Specified purpose accounts				
Canada Pension Plan Account	803	-7	459	1,233
Superannuation accounts	321	243	2,983	3,885
Other	176	34	26	35
Total	1,300	270	3,468	5,153
Other transactions	2,271	2,485	-1,260	-4,707
Total non-budgetary transactions	3,720	2,911	3,504	1,656
Financial requirements/surplus (excluding foreign exchange transactions)	1,377	1,239	12,698	10,751
Foreign exchange transactions	-3,186	-5,846	-2,155	-4,478
Net financial balance	-1,809	-4,607	10,543	6,273

Table 5

Net financial balance and net borrowings

	March		April to March	
	1998	1999	1997-98	1998-99
	(millions of dollars)			
Net financial balance	-1,809	-4,607	10,543	6,273
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	-1,768	-7,300	12,020	972
Canada Savings Bonds	-123	-50	-2,878	-1,875
Treasury bills	3,100	10,950	-23,100	-15,350
Other	-1	499	-11	607
Subtotal	1,208	4,099	-13,969	-15,646
Less: Government's holding of unmatured debt	98	66	241	193
Total	1,306	4,165	-13,728	-15,453
Payable in foreign currencies				
Marketable bonds	899	132	3,679	7,013
Notes and loans	0	0	0	0
Canada bills	436	1,283	984	874
Canada notes	-144	1,273	-497	198
Total	1,191	2,688	4,166	8,085
Net change in borrowings	2,497	6,853	-9,562	-7,368
Change in cash balance	688	2,246	981	-1,095

Table 6

Condensed statement of assets and liabilities

	March 31, 1998	March 31, 1999	Change
	(millions of dollars)		
Liabilities			
Accounts payable, accruals and allowances			
Accounts payable and accrued liabilities	22,364	14,711	-7,653
Interest and matured debt	10,419	7,374	-3,045
Allowances	10,917	10,917	0
Total accounts payable, accruals and allowances	43,700	33,002	-10,698
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	117,457	121,342	3,885
Canada Pension Plan (net of securities)	4,205	6,794	2,589
Other pension and other accounts	5,872	4,551	-1,321
Total pension and other accounts	127,534	132,687	5,153
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	294,583	295,555	972
Treasury bills	112,300	96,950	-15,350
Canada Savings Bonds	29,769	28,087	-1,682
Other	3,456	4,063	607
Subtotal	440,108	424,655	-15,453
Payable in foreign currencies			
Marketable bonds	14,651	23,176	8,525
Canada bills	9,356	10,230	874
Canada notes	3,176	1,863	-1,313
Subtotal	27,183	35,269	8,086
Total unmatured debt	467,291	459,924	-7,367
Total interest-bearing debt	594,825	592,611	-2,214
Total liabilities	638,525	625,613	-12,912
Assets			
Cash and accounts receivable	15,813	8,730	-7,083
Foreign exchange accounts	28,968	33,446	4,478
Loans, investments and advances (net of allowances)	14,036	12,824	-1,212
Total assets	58,817	55,000	-3,817
Accumulated deficit (net public debt)	579,708	570,613	-9,095

Net financial balance of \$6.3 billion/ net borrowings down \$7.4 billion

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. It fulfills this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar

and selling foreign exchange (buying Canadian dollars) when there is downward pressure. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions.

The Fiscal Monitor

Table 7

Debt Servicing and Reduction Account (DSRA)

	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
	(millions of dollars)						
Gross GST collected	29,564	30,516	32,652	36,715	38,048	40,733	46,986
Less:							
Refunds and rebates	12,134	13,145	14,271	17,112	18,874	19,782	24,633
Quarterly low-income credit	2,262	2,503	2,685	2,816	2,799	2,872	2,892
Net GST	15,168	14,868	15,696	16,787	16,375	18,079	19,461
GST penalties and interest received	19	71	90	129	135	159	127
Gains from wind-up of interest in Crown corporations/disposal of shares	2	110			325		
Gifts to the Crown	0.4	0.1	0.2	0.5	0.3	0.3	0.176
Proceeds to DSRA	15,190	15,050	15,786	16,916	16,835	18,238	19,588

Source: *Public Accounts of Canada*.

Taking all of these factors into account, preliminary estimates for 1998-99 indicate that there was a net requirement of \$4.5 billion from foreign exchange transactions, compared to a net requirement of \$2.2 billion in 1997-98.

With a budgetary surplus of \$9.1 billion, a net source of \$1.7 billion from non-budgetary transactions and a net requirement of funds of \$4.5 billion from foreign exchange transactions, there was a net financial surplus of \$6.3 billion in 1998-99, compared to a net surplus of \$10.6 billion in 1997-98.

With this financial surplus, coupled with a reduction in cash balances of \$1.1 billion, the government retired \$7.4 billion of market debt in 1998-99. This will mark the second consecutive year in which there has been a reduction in market debt. Over the two fiscal years, market debt has declined by \$16.9 billion. Cash balances at the end of March 1999 were \$9.3 billion.

The Debt Servicing and Reduction Account

In June 1991, legislation to establish the Debt Servicing and Reduction Account (DSRA) received Royal Assent. As a result, effective April 1, 1991, all GST revenue net of the applicable input tax credits, rebates, and the low-income credit, along with the net proceeds from the sale of Crown corporations and gifts to the Crown identified for debt reduction, must, by law, go directly to the DSRA. The funds in this Account can only be used to pay the cost of servicing the public debt and ultimately to reduce the debt. The Account is audited on an annual basis by the Auditor General of Canada. In his "Observations" on the 1996-97 financial statements, the Auditor General questioned the need for this Account, given the fundamental concept of the Consolidated Revenue Fund. The government has indicated that it would review this issue.

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May 1999



The Fiscal Monitor

A Publication of the Department of Finance

Government
Publications

Highlights of financial results for April 1999

Budgetary surplus up \$0.3 billion in April 1999

There was a budgetary surplus of \$1.5 billion in April 1999, up \$0.3 billion from the surplus of \$1.2 billion in April 1998. Budgetary revenues were up 5.2 per cent on a year-over-year basis while public debt charges were down 1.2 per cent. Program spending increased by 4.7 per cent.

Among the major revenue components:

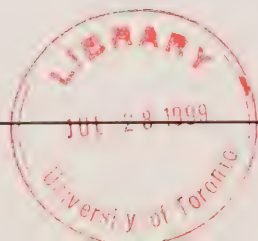
- Personal income tax collections were up 4.3 per cent, or \$0.3 billion. This increase reflected continued strength in receipts from monthly deductions from employment income, due to the increase in the number of people employed, and lower refunds, due to fewer returns being processed compared to the same period last year. However, the impact of these factors was partially offset by lower taxes paid on filing with respect to the 1998 taxation year.
- Corporate income tax collections declined 12.7 per cent, or \$0.2 billion, due to the weakness in profits in 1998.
- Other income tax revenues were up 47.9 per cent, or \$0.1 billion, primarily reflecting the timing of receipts.
- Employment insurance premium revenues were up 2.3 per cent. This increase reflects an understatement of premiums in the early part of last year. Adjusting for this, premium revenues are virtually unchanged, as the effect of the decline in the premium rates

(the employee rate for 1999 is \$2.55 per \$100 of insurable earnings compared to \$2.70 in 1998) on overall premium revenues is being offset by an increase in the number of people employed.

- Net goods and services tax collections increased 16.4 per cent, or \$0.3 billion, reflecting both an increase in gross collections and virtually no change in refunds. Refunds are expected to pick up over the course of the year.
- Other excise taxes and duties were virtually unchanged.

Within program spending, all components were higher with the exception of subsidies and other transfers.

- Major transfers to persons were up slightly as increased elderly benefit payments more than offset a decline in employment insurance benefits.
- Major transfers to other levels of government were up 7.4 per cent, reflecting higher Equalization entitlements. As indicated in the 1999 budget, Equalization entitlements were revised up significantly due to historical data revisions, which indicated much stronger economic growth in Ontario than in the Equalization-receiving provinces.
- The decline in subsidies and other transfers was widespread among most departments. Over the course of the fiscal year, this component is expected to be lower than in 1998-99.



The Fiscal Monitor

Table 1

Summary statement of transactions

	April	
	1998	1999
	(millions of dollars)	
Budgetary transactions		
Revenues	12,500	13,150
Program spending	-7,862	-8,233
Operating surplus	4,638	4,917
Public debt charges	-3,454	-3,412
Budgetary balance (deficit/surplus)	1,184	1,505
Non-budgetary transactions	-3,456	-3,571
Financial requirements/surplus (excluding foreign exchange transactions)	-2,272	-2,066
Foreign exchange transactions	1,287	-632
Net financial balance	-985	-2,698
Net change in borrowings	-5,557	-4,714
Net change in cash balances	-6,542	-7,412

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

- The strong increase in payments to Crown corporations was attributable to the timing of such payments; total payments for the year as a whole are expected to be only slightly higher than last year.
- The increase in operating and capital expenditures was primarily attributable to timing factors.

The decline in public debt charges was attributable to a decline in the stock of interest-bearing debt and lower average effective interest rates on that stock.

Total financial requirement of \$2.1 billion (excluding foreign exchange transactions) in April 1999

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the government has legislative control.

In contrast, financial requirements/surplus measure the difference between cash coming in to the government and cash going out. Financial requirements/surplus differ from the budgetary balance, as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement amounting to \$3.6 billion in April 1999, up from a net requirement of \$3.5 billion in April 1998. As a result, there was a financial requirement (excluding foreign exchange transactions) of \$2.1 billion in April 1999, down slightly from the \$2.3-billion financial requirement recorded in the same period last year.

The Fiscal Monitor

Table 2

Budgetary revenues

	April		Change
	1998	1999	
	(millions of dollars)		(%)
Income taxes			
Personal income tax	6,209	6,479	4.3
Corporate income tax	1,241	1,083	-12.7
Other income tax revenue	286	423	47.9
Total income tax	7,736	7,985	3.2
Employment insurance premium revenues	1,748	1,788	2.3
Excise taxes and duties			
Goods and services tax	1,803	2,098	16.4
Customs import duties	174	182	4.6
Sales and excise taxes	621	624	0.5
Total excise taxes and duties	2,598	2,904	11.8
Total tax revenues	12,082	12,677	4.9
Non-tax revenues	418	473	13.2
Total budgetary revenues	12,500	13,150	5.2

Net financial requirement of \$2.7 billion

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. It fulfills this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions. Taking all of these factors into account, there was a net requirement of \$0.6 billion in April 1999, compared to a net source of \$1.3 billion in April 1998.

With a budgetary surplus of \$1.5 billion, a net requirement of \$3.6 billion from non-budgetary transactions and a net requirement of funds of \$0.6 billion from foreign exchange transactions, there was a net financial requirement of \$2.7 billion in April 1999 compared to a net financial requirement of \$1.0 billion in April 1998.

Net borrowings down \$4.7 billion

Although there was a net financial requirement of \$2.7 billion in April 1999, the government still retired \$4.7 billion of market debt in that month. This was accomplished by reducing its cash balances by \$7.4 billion. Cash balances at the end of April 1999 amounted to \$1.9 billion.

The Fiscal Monitor

Table 6

Condensed statement of assets and liabilities

	March 31, 1999	April 30, 1999	Change
	(millions of dollars)		
Liabilities			
Accounts payable, accruals and allowances			
Accounts payable and accrued liabilities	18,911	18,975	64
Interest and matured debt	7,374	11,080	3,706
Allowances	12,804	12,076	-728
Total accounts payable, accruals and allowances	39,089	42,131	3,042
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	121,342	121,706	364
Canada Pension Plan (net of securities)	6,794	6,574	-220
Other pension and other accounts	-4,551	4,573	22
Total pension and other accounts	132,687	132,853	166
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	295,555	295,612	57
Treasury bills	96,950	92,900	-4,050
Canada Savings Bonds	28,087	28,001	-86
Other	4,063	4,661	598
Subtotal	424,655	421,174	-3,481
Payable in foreign currencies			
Marketable bonds	23,176	23,176	0
Canada bills	10,230	8,997	-1,233
Canada notes	1,863	1,863	0
Subtotal	35,269	34,036	-1,233
Total unmaturred debt	459,924	455,210	-4,714
Total interest-bearing debt	592,611	588,063	-4,548
Total liabilities	631,700	630,194	-1,506
Assets			
Cash and accounts receivable	8,730	8,730	0
Foreign exchange accounts	33,446	33,445	-1
Loans, investments and advances (net of allowances)	12,824	12,824	0
Total assets	55,000	54,999	-1
Accumulated deficit (net public debt)	576,700	575,195	-1,505

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July 1999



The Fiscal Monitor

Table 3

Budgetary expenditures

	April		Change
	1998	1999	
	(millions of dollars)		(%)
Transfer payments to:			
Persons			
Elderly benefits	1,821	1,871	2.7
Employment insurance benefits	1,114	1,079	-3.1
Total	2,935	2,950	0.5
Other levels of government			
Canada Health and Social Transfer	1,042	1,042	0.0
Fiscal transfers	642	743	15.7
Alternative Payments for Standing Programs	-187	-177	-5.3
Total	1,497	1,608	7.4
Direct program spending			
Subsidies and other transfers			
Agriculture	5	1	-80.0
Foreign Affairs	100	57	-43.0
Health	84	55	-34.5
Human Resources Development	58	28	-51.7
Indian and Northern Development	778	829	6.6
Industry and Regional Development	72	91	26.4
Veterans Affairs	114	113	-0.9
Other	190	194	2.1
Total	1,401	1,368	-2.4
Payments to Crown corporations			
Canadian Broadcasting Corporation	147	113	-23.1
Canada Mortgage and Housing Corporation	125	145	16.0
Other	116	155	33.6
Total	388	413	6.4
Operating and capital expenditures			
Defence	445	540	21.3
All other departmental expenditures	1,196	1,354	13.2
Total	1,641	1,894	15.4
Total direct program spending	3,430	3,675	7.1
Total program expenditures	7,862	8,233	4.7
Public debt charges	3,454	3,412	-1.2
Total budgetary expenditures	11,316	11,645	2.9
Memorandum item:			
Total transfers	5,833	5,926	1.6

Table 4

The budgetary balance and financial requirements/surplus

	April	
	1998	1999
	(millions of dollars)	
Budgetary balance (deficit/surplus)	1,184	1,505
Loans, investments and advances		
Crown corporations	101	-64
Other	1	309
Total	102	245
Specified purpose accounts		
Canada Pension Plan Account	599	-220
Superannuation accounts	340	364
Other	-40	22
Total	899	166
Other transactions	-4,457	-3,982
Total non-budgetary transactions	-3,456	-3,571
Financial requirements/surplus (excluding foreign exchange transactions)	-2,272	-2,066
Foreign exchange transactions	1,287	-632
Net financial balance	-985	-2,698

Table 5

Net financial balance and net borrowings

	April	
	1998	1999
	(millions of dollars)	
Net financial balance	-985	-2,698
Net increase (+)/decrease (-) in borrowings		
Payable in Canadian dollars		
Marketable bonds	-	-
Canada Savings Bonds	-4,200	-4,050
Treasury bills	-629	-86
Other	-1	598
Subtotal	-4,830	-3,538
Less: Government's holding of unmatured debt	90	57
Total	-4,740	-3,481
Payable in foreign currencies		
Marketable bonds	-	-
Notes and loans	-	-
Canada bills	-817	-1,233
Canada notes	-	-
Total	-817	-1,233
Net change in borrowings	-5,557	-4,714
Change in cash balance	-6,542	-7,412

The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for May 1999

Budgetary surplus of \$1.8 billion in May 1999

There was a budgetary surplus of \$1.8 billion in May 1999, up \$0.8 billion from the surplus recorded in May 1998. About half of the year-over-year increase in the surplus reflected timing considerations, which will be reversed in future months. Budgetary revenues were up \$1 billion, or 8.2 per cent, while public debt charges declined \$0.1 billion, or 2.3 per cent. Program spending increased \$0.3 billion, or 3.7 per cent.

Among the major revenue components:

- Personal income tax collections were up 11.9 per cent. This increase reflected continued strength in receipts from monthly deductions from employment income, due to the increase in the number of people employed, as well as the timing of the receipt of payments. Taxes paid on filing with respect to the 1998 taxation year were also up strongly, more than offsetting the year-over-year decline witnessed last month.
- Corporate income tax collections declined 13.4 per cent, reflecting the weakness in profits in 1998.
- Employment insurance premium revenues were virtually unchanged, as the effect of the decline in the premium rates on overall premium revenues (the employee rate for 1999 is \$2.55 per \$100 of insurable earnings compared to \$2.70 in 1998) was offset by an increase in the number of people employed.
- Net goods and services tax collections increased 40.8 per cent, largely due to the timing of receipts. Timing factors depressed

gross receipts in May 1998 and there was a corresponding recovery the following month. This year, the reverse appears to have occurred.

- Other excise taxes and duties were up 3.6 per cent in May, while they were virtually unchanged in April. Non-tax revenues declined 17.6 per cent, offsetting all of the year-over-year increase recorded in April.

Within program spending, all components were higher with the exception of subsidies and other transfers, and payments to Crown corporations.

- Major transfers to persons were up slightly due to higher employment insurance benefits. Elderly benefits were unchanged due to timing factors.
- Major transfers to other levels of government were up 4.9 per cent, reflecting higher Equalization entitlements. As indicated in the 1999 budget, Equalization entitlements were revised up significantly due to historical data revisions indicating much stronger economic growth in Ontario than in the Equalization-receiving provinces.
- The decline in subsidies and other transfers was widespread among most departments. Over the course of the fiscal year, this component is expected to be lower than in 1998-99.
- The decline in payments to Crown corporations in May offset part of the increase recorded in April.
- The increase in operating and capital expenditures was primarily attributable to timing factors.

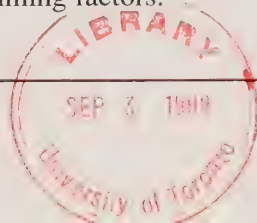


Table 1

Summary statement of transactions

	May		April to May	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
Budgetary transactions				
Revenues	12,346	13,363	24,846	26,514
Program spending	-7,724	-8,006	-15,588	-16,239
Operating surplus	4,622	5,357	9,258	10,275
Public debt charges	-3,593	-3,512	-7,046	-6,924
Budgetary balance (deficit/surplus)	1,029	1,845	2,212	3,351
Non-budgetary transactions	4,594	4,441	1,137	870
Financial requirements/surplus (excluding foreign exchange transactions)	5,623	6,286	3,349	4,221
Foreign exchange transactions	1,178	1,135	2,465	503
Net financial balance	6,801	7,421	5,814	4,724
Net change in borrowings	-5,682	-2,427	-11,239	-7,140
Net change in cash balances	1,119	4,994	-5,425	-2,416

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

Most of the decline in public debt charges was due to timing adjustments which overstated the May 1998 results. This will be reversed in future months.

Year-to-date: budgetary surplus of \$3.4 billion

Over the first two months of fiscal year 1999-2000, the budgetary surplus was estimated at \$3.4 billion, up \$1.1 billion from the surplus of \$2.2 billion recorded in the same period of 1998-99. However, as noted above, part of this year-over-year improvement is attributable to timing factors, which will be reversed in future months. In addition, the tax reduction measures announced in the 1999 budget, as well as the 1998 budget measure to increase the Canada Child Tax Benefit, became effective July 1, 1999. Therefore, the budgetary results for the first two months of 1999-2000 are not an appropriate indicator of developments over the year as a whole.

Financial surplus of \$4.2 billion (excluding foreign exchange transactions) for April and May 1999

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the government has legislative control.

In contrast, financial requirements/surplus measure the difference between cash coming in to the government and cash going out. Financial requirements/surplus differ from the budgetary balance, as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

The Fiscal Monitor

Table 2

Budgetary revenues

	May		Change	April to May		Change
	1998	1999		1998-99	1999-00	
	(millions of dollars)		(%)	(millions of dollars)		(%)
Income taxes						
Personal income tax	6,288	7,038	11.9	12,496	13,518	8.2
Corporate income tax	1,644	1,424	-13.4	2,886	2,506	-13.2
Other income tax revenue	143	152	6.3	429	575	34.0
Total income tax	8,075	8,614	6.7	15,811	16,599	5.0
Employment insurance premium revenues	1,795	1,800	0.3	3,543	3,587	1.2
Excise taxes and duties						
Goods and services tax	1,244	1,751	40.8	3,047	3,849	26.3
Customs import duties	146	156	6.8	320	338	5.6
Sales and excise taxes	694	719	3.6	1,315	1,342	2.1
Total excise taxes and duties	2,084	2,626	26.0	4,682	5,529	18.1
Total tax revenues	11,954	13,040	9.1	24,036	25,715	7.0
Non-tax revenues	392	323	-17.6	810	799	-1.4
Total budgetary revenues	12,346	13,363	8.2	24,846	26,514	6.7

Non-budgetary transactions resulted in a net source of funds of \$0.9 billion in April/May 1999, down \$0.3 billion from the net source in the same period last year. As a result, there was a financial surplus (excluding foreign exchange transactions) of \$4.2 billion in the April/May 1999 period, compared to a financial surplus of \$3.3 billion recorded in the same period last year.

Net financial surplus of \$4.7 billion

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. It fulfills this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency

liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions. Taking all of these factors into account, there was a net source of \$0.5 billion from foreign exchange transactions in the April/May 1999 period, compared to a net source of \$2.5 billion in the same period last year.

With a budgetary surplus of \$3.4 billion, a net source of funds of \$0.9 billion from non-budgetary transactions and a net source of funds of \$0.5 billion from foreign exchange transactions, there was a net financial surplus of \$4.7 billion in the April/May 1999 period compared to a surplus of \$5.8 billion in the same period last year.

Net borrowings down \$7.1 billion

With a net financial surplus of \$4.7 billion and a reduction in cash balances of \$2.4 billion in April/May 1999, the government retired \$7.1 billion of market debt in this period. Cash balances at the end of May 1999 amounted to \$6.9 billion.

The Fiscal Monitor

Table 6

Condensed statement of assets and liabilities

	March 31, 1999	May 31, 1999	Change
	(millions of dollars)		
Liabilities			
Accounts payable, accruals and allowances			
Accounts payable and accrued liabilities	18,911	22,319	3,408
Interest and matured debt	7,374	7,604	230
Allowances	12,804	10,917	-1,887
Total accounts payable, accruals and allowances	39,089	40,840	1,751
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	121,342	122,023	681
Canada Pension Plan (net of securities)	6,794	7,239	445
Other pension and other accounts	4,551	4,545	-6
Total pension and other accounts	132,687	133,807	1,120
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	295,555	299,855	4,300
Treasury bills	96,950	87,000	-9,950
Canada Savings Bonds	28,087	27,457	-630
Other	4,063	4,889	826
Subtotal	424,655	419,201	-5,454
Payable in foreign currencies			
Marketable bonds	23,176	24,621	1,445
Canada bills	10,230	7,972	-2,258
Canada notes	1,863	1,261	-602
Subtotal	35,269	33,854	-1,415
Total unmaturred debt	459,924	453,055	-6,869
Total interest-bearing debt	592,611	586,862	-5,749
Total liabilities	631,700	627,702	-3,998
Assets			
Cash and accounts receivable	8,730	7,362	-1,368
Foreign exchange accounts	33,446	33,949	503
Loans, investments and advances (net of allowances)	12,824	13,042	218
Total assets	55,000	54,353	-647
Accumulated deficit (net public debt)	576,700	573,349	-3,351

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July 1999



The Fiscal Monitor

Table 3

Budgetary expenditures

	May		Change	April to May		Change
	1998	1999		1998-99	1999-00	
	(millions of dollars)		(%)	(millions of dollars)		(%)
Transfer payments to:						
Persons						
Elderly benefits	1,878	1,878	0.0	3,699	3,749	1.4
Employment insurance benefits	881	943	7.0	1,995	2,022	1.4
Total	2,759	2,821	2.2	5,694	5,771	1.4
Other levels of government						
Canada Health and Social Transfer	1,041	1,042	0.1	2,083	2,083	0.0
Fiscal transfers	897	991	10.5	1,539	1,735	12.7
Alternative Payments for Standing Programs	-188	-198	5.3	-375	-375	0.0
Total	1,750	1,835	4.9	3,247	3,443	6.0
Direct program spending						
Subsidies and other transfers						
Agriculture	9	46	411.1	14	47	235.7
Foreign Affairs	65	138	112.3	166	195	17.5
Health	62	61	-1.6	146	116	-20.5
Human Resources Development	170	56	-67.1	228	83	-63.6
Indian and Northern Development	217	229	5.5	995	1,058	6.3
Industry and Regional Development	60	64	6.7	132	155	17.4
Veterans Affairs	113	114	0.9	227	227	0.0
Other	167	102	-38.9	358	296	-17.3
Total	863	810	-6.1	2,266	2,177	-3.9
Payments to Crown corporations						
Canadian Broadcasting Corporation	23	42	82.6	170	155	-8.8
Canada Mortgage and Housing Corporation	175	150	-14.3	300	295	-1.7
Other	57	60	5.3	174	215	23.6
Total	255	252	-1.2	644	665	3.3
Operating and capital expenditures						
Defence	660	699	5.9	1,104	1,238	12.1
All other departmental expenditures	1,437	1,589	10.6	2,633	2,945	11.8
Total	2,097	2,288	9.1	3,737	4,183	11.9
Total direct program spending	3,215	3,350	4.2	6,647	7,025	5.7
Total program expenditures	7,724	8,006	3.7	15,588	16,239	4.2
Public debt charges	3,593	3,512	-2.3	7,046	6,924	-1.7
Total budgetary expenditures	11,317	11,518	1.8	22,634	23,163	2.3
Memorandum item:						
Total transfers	5,372	5,466	1.7	11,207	11,391	1.6

Table 4

The budgetary balance and financial requirements/surplus

	May		April to May	
	1998	1999	1998-99	1999-00
(millions of dollars)				
Budgetary balance (deficit/surplus)	1,029	1,845	2,212	3,351
Loans, investments and advances				
Crown corporations	26	-42	127	-106
Other	46	15	47	324
Total	72	-27	174	218
Specified purpose accounts				
Canada Pension Plan Account	850	665	1,449	445
Superannuation accounts	260	317	600	681
Other	15	-28	-25	-6
Total	1,125	954	2,024	1,120
Other transactions	3,397	3,514	-1,061	-468
Total non-budgetary transactions	4,594	4,441	1,137	870
Financial requirements/surplus (excluding foreign exchange transactions)	5,623	6,286	3,349	4,221
Foreign exchange transactions	1,178	1,135	2,465	503
Net financial balance	6,801	7,421	5,814	4,724

Table 5

Net financial balance and net borrowings

	May		April to May	
	1998	1999	1998-99	1999-00
(millions of dollars)				
Net financial balance	6,801	7,421	5,814	4,724
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	3,900	4,300	3,900	4,300
Canada Savings Bonds	-365	-137	-994	-223
Treasury bills	-8,900	-5,900	-13,100	-9,950
Other	56	227	55	826
Subtotal	-5,309	-1,510	-10,139	-5,047
Less: Government's holding of unmatured debt	89	49	179	106
Total	-5,220	-1,461	-9,960	-4,941
Payable in foreign currencies				
Marketable bonds	—	—	—	—
Notes and loans	—	—	—	—
Canada bills	-462	-966	-1,279	-2,199
Canada notes	—	—	—	—
Total	-462	-966	-1,279	-2,199
Net change in borrowings	-5,682	-2,427	-11,239	-7,140
Change in cash balance	1,119	4,994	-5,425	-2,416

The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for June 1999

Budgetary surplus down \$0.8 billion in June 1999

There was a budgetary surplus of \$1.4 billion in June 1999, down \$0.8 billion from the surplus of \$2.2 billion recorded in June 1998. As indicated in the last *Fiscal Monitor*, a lower fiscal balance was expected in June 1999 as the year-over-year improvement in the first two months of 1999-2000 was primarily attributable to timing considerations. Budgetary revenues were down \$0.4 billion, or 3.0 per cent, while program spending increased \$0.4 billion, or 4.7 per cent. Public debt charges were unchanged.

Among the major revenue components:

- Personal income tax collections were down 2.1 per cent. This decline was primarily attributable to the timing of receipts, which overstated collections in the previous two months. In addition, refunds relating to the 1998 taxation year were higher.
- Corporate income tax collections declined 2.4 per cent, in part reflecting the weakness in profits in 1998.
- Employment insurance premium revenues were virtually unchanged, as the effect of the decline in the premium rates on overall premium revenues (the employee rate for 1999 is \$2.55 per \$100 of insurable earnings compared to \$2.70 in 1998) was offset by an increase in the number of people employed.

- Net goods and services tax (GST) collections declined 25.5 per cent, largely due to the timing of payments, which overstated the net increase in revenues in the first two months of 1999-2000. Customs import duties advanced 53.5 per cent, while other excise taxes and duties were up 2.7 per cent.

Within program spending, all components were higher with the exception of major transfers to persons and defence.

- Major transfers to persons were down slightly, as lower employment insurance benefits more than offset an increase in elderly benefits.
- Major transfers to other levels of government were up 5.4 per cent, reflecting higher Equalization entitlements. As indicated in the 1999 budget, Equalization entitlements were revised up significantly due to historical data revisions indicating much stronger economic growth in Ontario than in the Equalization-receiving provinces.
- The increase in subsidies and other transfers reflects timing considerations. Over the course of the fiscal year, this component is expected to be lower than in 1998-99.
- Payments to Crown corporations were up marginally, again primarily due to the timing of payments.
- The increase in operating and capital expenditures reflects the impact of wage settlements as well as systems difficulties in the allocation of spending among the other components.



The Fiscal Monitor

Table 1

Summary statement of transactions

	June		April to June	
	1998	1999	1998-99	1999-00
(millions of dollars)				
Budgetary transactions				
Revenues	13,853	13,432	38,699	39,945
Program spending	-8,160	-8,541	-23,748	-24,780
Operating surplus	5,693	4,891	14,951	15,165
Public debt charges	-3,464	-3,464	-10,510	-10,388
Budgetary balance (deficit/surplus)	2,229	1,427	4,441	4,777
Non-budgetary transactions	-3,457	-6,272	-2,318	-5,401
Financial requirements/surplus (excluding foreign exchange transactions)	-1,228	-4,845	2,123	-624
Foreign exchange transactions	1,163	-1,273	3,629	-770
Net financial balance	-65	-6,118	5,752	-1,394
Net change in borrowings	1,469	2,417	-9,770	-4,723
Net change in cash balances	1,404	-3,701	-4,018	-6,117

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

Year-to-date: budgetary surplus of \$4.8 billion

Over the first three months of fiscal year 1999-2000, the budgetary surplus was estimated at \$4.8 billion, up \$0.3 billion from the surplus recorded in the same period of 1998-99. The year-over-year improvement in the budgetary surplus will be affected in upcoming months by the tax reduction measures announced in the 1999 budget, which became effective July 1, 1999, as well as the 1998 budget measure to increase the Canada Child Tax Benefit (CCTB).

Budgetary revenues were up \$1.2 billion, or 3.2 per cent, on a year-over-year basis. All major components were up with the exception of corporate income tax revenues.

- Personal income tax collections were up \$0.9 billion, or 4.7 per cent. This increase was due to both higher taxes paid on filing, related to the 1998 taxation year, and continued increases in receipts from monthly deductions

from employment income, due to increases in the number of people employed. The results to date were dampened by higher personal income tax refunds related to the 1998 taxation year and by higher CCTB payments, reflecting increases announced in previous budgets.

- Corporate income tax revenues were down \$0.4 billion, or 8.9 per cent, due to the decline in corporate profits witnessed in 1998. Although corporate profits are estimated to have picked up in the first half of 1999, refunds related to overpayments with respect to taxation year 1998 and instalment payments based on 1998 liabilities are dampening revenues to date in 1999-2000.
- Employment insurance premium revenues were up marginally, as the effect of the decline in the premium rates on overall premium revenues (the employee rate for 1999 is \$2.55 per \$100 of insurable earnings compared to \$2.70 in 1998) was offset by an increase in the number of employed.

Table 2

Budgetary revenues

	June		Change	April to June		Change
	1998	1999		1998-99	1999-00	
	(millions of dollars)		(%)	(millions of dollars)		(%)
Income taxes						
Personal income tax	6,490	6,354	-2.1	18,986	19,872	4.7
Corporate income tax	1,831	1,787	-2.4	4,716	4,294	-8.9
Other income tax revenue	184	203	10.3	613	778	26.9
Total income tax	8,505	8,344	-1.9	24,315	24,944	2.6
Employment insurance premium revenues	1,775	1,779	0.2	5,318	5,366	0.9
Excise taxes and duties						
Goods and services tax	2,050	1,528	-25.5	5,097	5,377	5.5
Customs import duties	185	284	53.5	504	622	23.4
Sales and excise taxes	804	826	2.7	2,118	2,169	2.4
Total excise taxes and duties	3,039	2,638	-13.2	7,719	8,168	5.8
Total tax revenues	13,319	12,761	-4.2	37,352	38,478	3.0
Non-tax revenues	534	671	25.7	1,347	1,467	8.9
Total budgetary revenues	13,853	13,432	-3.0	38,699	39,945	3.2

- Net GST collections were up \$0.3 billion, or 5.5 per cent, consistent with the growth in consumer expenditures subject to this tax.
- Customs import duties were up, as the growth in imports more than offset the impact of tariff reductions. The increase in other excise taxes and duties was widespread.
- Non-tax revenues, consisting of the return on investments and other non-tax revenues, such as fees and proceeds from sales, were up \$0.1 billion or 8.9 per cent. This component of budgetary revenues is quite volatile, reflecting the timing of receipts.

Program spending increased by \$1.0 billion, or 4.3 per cent, in the April to June 1999 period over the same period last year. This increase was spread among all major components with the exception of subsidies and other transfers.

- Major transfers to persons were up slightly, as lower employment insurance benefits partially offset higher elderly benefit payments. The higher elderly benefits reflect an increase in

the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation. The slight decline in employment insurance benefit payments was primarily due to a decline in the number of beneficiaries, which reflected a reduction in the number of unemployed.

- Major transfers to other levels of government were up 5.8 per cent, reflecting much higher fiscal transfers, most notably for Equalization, as explained above.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, increased by \$0.7 billion, or 6.6 per cent. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. This component was affected by the timing of payments, the lifting of the wage freeze and the effect of new initiatives announced in the February 1999 budget.

The Fiscal Monitor

Table 3

Budgetary expenditures

	June		Change	April to June		Change
	1998	1999		1998-99	1999-00	
	(millions of dollars)		(%)	(millions of dollars)		(%)
Transfer payments to:						
Persons						
Elderly benefits	1,868	1,882	0.7	5,567	5,631	1.1
Employment insurance benefits	804	769	-4.4	2,799	2,791	-0.3
Total	2,672	2,651	-0.8	8,366	8,422	0.7
Other levels of government						
Canada Health and Social Transfer	1,042	1,042	0.0	3,125	3,125	0.0
Fiscal transfers	776	866	11.6	2,315	2,601	12.4
Alternative Payments for Standing Programs	-186	-188	1.1	-560	-563	0.5
Total	1,632	1,720	5.4	4,880	5,163	5.8
Direct program spending						
Subsidies and other transfers						
Agriculture	42	31	-26.2	56	78	39.3
Foreign Affairs	98	34	-65.3	263	229	-12.9
Health	94	146	55.3	239	262	9.6
Human Resources Development	207	193	-6.8	436	276	-36.7
Indian and Northern Development	312	334	7.1	1,306	1,392	6.6
Industry and Regional Development	105	108	2.9	238	263	10.5
Veterans Affairs	112	114	1.8	339	341	0.6
Other	144	202	40.3	502	498	-0.8
Total	1,114	1,162	4.3	3,379	3,339	-1.2
Payments to Crown corporations						
Canadian Broadcasting Corporation	60	50	-16.7	230	205	-10.9
Canada Mortgage and Housing Corporation	157	150	-4.5	457	445	-2.6
Other	70	95	35.7	244	310	27.0
Total	287	295	2.8	931	960	3.1
Operating and capital expenditures						
Defence	779	772	-0.9	1,883	2,010	6.7
All other departmental expenditures	1,676	1,941	15.8	4,309	4,886	13.4
Total	2,455	2,713	10.5	6,192	6,896	11.4
Total direct program spending	3,856	4,170	8.1	10,502	11,195	6.6
Total program expenditures	8,160	8,541	4.7	23,748	24,780	4.3
Public debt charges	3,464	3,464	0.0	10,510	10,388	-1.2
Total budgetary expenditures	11,624	12,005	3.3	34,258	35,168	2.7
Memorandum item:						
Total transfers	5,418	5,533	2.1	16,625	16,924	1.8

Table 4

The budgetary balance and financial requirements/surplus

	June		April to June	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
Budgetary balance (deficit/surplus)	2,229	1,427	4,441	4,777
Loans, investments and advances				
Crown corporations	28	-32	155	-137
Other	-58	87	-11	410
Total	-30	55	144	273
Specified purpose accounts				
Canada Pension Plan Account	-451	-175	998	271
Superannuation accounts	366	381	967	1,062
Other	-21	-101	-45	-107
Total	-106	105	1,920	1,226
Other transactions	-3,321	-6,432	-4,382	-6,900
Total non-budgetary transactions	-3,457	-6,272	-2,318	-5,401
Financial requirements/surplus (excluding foreign exchange transactions)	-1,228	-4,845	2,123	-624
Foreign exchange transactions	1,163	-1,273	3,629	-770
Net financial balance	-65	-6,118	5,752	-1,394

Table 5

Net financial balance and net borrowings

	June		April to June	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
Net financial balance	-65	-6,118	5,752	-1,394
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	6,323	5,987	10,223	10,287
Canada Savings Bonds	-544	-952	-1,537	-1,175
Treasury bills	-4,500	-2,400	-17,600	-12,350
Other	1,001	173	1,056	999
Subtotal	2,280	2,808	-7,858	-2,239
Less: Government's holding of unmatured debt	93	66	272	172
Total	2,373	2,874	-7,586	-2,067
Payable in foreign currencies				
Marketable bonds	-	-	-	-
Notes and loans	-	-	-	-
Canada bills	-123	-457	-1,403	-2,656
Canada notes	-781	-	-781	-
Total	-904	-457	-2,184	-2,656
Net change in borrowings	1,469	2,417	-9,770	-4,723
Change in cash balance	1,404	-3,701	-4,018	-6,117

The Fiscal Monitor

Public debt charges were down 1.2 per cent due to a decline in the average effective interest rate. The stock of interest-bearing debt was up somewhat as an increase in pension liabilities more than offset a decline in market debt.

Year-to-date: financial requirement of \$0.6 billion (excluding foreign exchange transactions)

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the government has legislative control.

In contrast, financial requirements/surplus measure the difference between cash coming in to the government and cash going out. Financial requirements/surplus differ from the budgetary balance as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$5.4 billion in the first three months of 1999-2000, compared to a net requirement of \$2.3 billion in the same period last year. This increase was largely attributable to the payment to a third-party trust of the \$3.5-billion Canada Health and Social Transfer cash supplement, as announced in the 1999 budget. As a result, there was a financial requirement (excluding foreign exchange transactions) of \$0.6 billion in the April to June 1999 period, compared to a financial surplus of \$2.1 billion recorded in the same period last year.

Year-to-date: net financial requirement of \$1.4 billion (including foreign exchange transactions)

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. It fulfills this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions. Taking all of these factors into account, there was a net requirement of \$0.8 billion in the April to June 1999 period, compared to a net source of \$3.6 billion in the same period last year.

With a budgetary surplus of \$4.8 billion, a net requirement of \$5.4 billion from non-budgetary transactions and a net requirement of \$0.8 billion from foreign exchange transactions, there was a net financial requirement of \$1.4 billion in the April to June 1999 period compared to a net source of \$5.8 billion in the same period last year.

Year-to-date: net borrowings down \$4.7 billion

Although there was a net financial requirement of \$1.4 billion in the April to June 1999 period, the government has retired \$4.7 billion of market debt to the end of June 1999 through a \$6.1-billion reduction in its cash balances. Cash balances at the end of June 1999 amounted to \$3.2 billion.

Table 6

Condensed statement of assets and liabilities

	March 31, 1999	June 30, 1999	Change
	(millions of dollars)		
Liabilities			
Accounts payable, accruals and allowances			
Accounts payable and accrued liabilities	18,911	19,340	429
Interest and matured debt	7,374	6,006	-1,368
Allowances	12,804	10,917	-1,887
Total accounts payable, accruals and allowances	39,089	36,263	-2,826
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	121,342	122,404	1,062
Canada Pension Plan (net of securities)	6,794	7,065	271
Other pension and other accounts	4,551	4,444	-107
Total pension and other accounts	132,687	133,913	1,226
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	295,555	305,841	10,286
Treasury bills	96,950	84,600	-12,350
Canada Savings Bonds	28,087	27,574	-513
Other	4,063	5,062	999
Subtotal	424,655	423,077	-1,578
Payable in foreign currencies			
Marketable bonds	23,176	24,569	1,393
Canada bills	10,230	7,515	-2,715
Canada notes	1,863	1,261	-602
Subtotal	35,269	33,345	-1,924
Total unmatured debt	459,924	456,422	-3,502
Total interest-bearing debt	592,611	590,335	-2,276
Total liabilities	631,700	626,598	-5,102
Assets			
Cash and accounts receivable	8,730	7,362	-1,368
Foreign exchange accounts	33,446	34,216	770
Loans, investments and advances (net of allowances)	12,824	13,097	273
Total assets	55,000	54,675	-325
Accumulated deficit (net public debt)	576,700	571,923	-4,777

Table 7

Debt Servicing and Reduction Account (DSRA)

	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
	(millions of dollars)						
Gross GST collected	29,564	30,516	32,652	36,715	38,048	40,733	46,986
Less:							
Refunds and rebates	12,134	13,145	14,271	17,112	18,874	19,782	24,633
Quarterly low-income credit	2,262	2,503	2,685	2,816	2,799	2,872	2,892
Net GST	15,168	14,868	15,696	16,787	16,375	18,079	19,461
GST penalties and interest received	19	71	90	129	135	159	127
Gains from wind-up of interest in Crown corporations/disposal of shares	2	110			325		
Gifts to the Crown	0.4	0.1	0.2	0.5	0.3	0.3	0.176
Proceeds to DSRA	15,190	15,050	15,786	16,916	16,835	18,238	19,588

Source: *Public Accounts of Canada*.

The Debt Servicing and Reduction Account

In June 1991, legislation to establish the Debt Servicing and Reduction Account received Royal Assent. As a result, effective April 1, 1991, all GST revenues net of the applicable input tax credits, rebates and the low-income credit, along with net proceeds from the sale of Crown corporations and gifts to the Crown identified for debt reduction, must, by law, go directly to the Debt Servicing

and Reduction Account. The funds in this Account can only be used to pay the cost of servicing the public debt and ultimately to reduce the debt. The Account is audited on an annual basis by the Auditor General of Canada. In his "Observations" on the 1996-97 financial statements, the Auditor General questioned the need for this Account, given the fundamental concept of the Consolidated Revenue Fund. The government has indicated that it would review this issue.



The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for July 1999

Budgetary surplus of \$0.8 billion in July 1999

There was a budgetary surplus of \$0.8 billion in July 1999, down \$0.5 billion from the surplus of \$1.3 billion recorded in July 1998. Most of the year-over-year decline in the surplus was attributable to a \$0.4-billion decline in budgetary revenues.

Among the major revenue components:

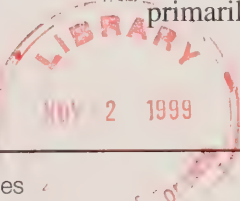
- Personal income tax collections were down 8.2 per cent. This decline was primarily attributable to the timing of receipts, which overstated collections in the previous three months. In addition, refunds relating to the 1998 taxation year and payments under the Canada Child Tax Benefit (CCTB) were higher. The monthly results were also dampened by the impact of the tax relief measures announced in the 1999 budget.
- Corporate income tax collections declined 2.7 per cent, in part reflecting the weakness in profits in 1998.
- Employment insurance (EI) premium revenues were down 2.0 per cent, as the effect of the decline in the premium rates (the employee rate for 1999 is \$2.55 per \$100 of insurable earnings compared to \$2.70 in 1998) more than offset an increase in the number of people employed.
- Net goods and services tax (GST) collections were up 14.8 per cent, largely attributable to lower refunds, which were down 8.9 per cent on a year-over-year basis. In contrast, gross

collections advanced by 2.3 per cent. Customs import duties declined by 11.2 per cent, largely due to the timing of payments, which overstated the net increase in the first three months of 1999-2000. Other excise taxes and duties were virtually unchanged.

- Non-tax revenues were up 11.3 per cent, primarily reflecting the timing of receipts.

Program spending advanced by 0.3 per cent on a year-over-year basis, with declines in major transfers to persons and direct program spending virtually offsetting the increase in major transfers to other levels of government.

- Major transfers to persons were down 0.8 per cent, as lower EI benefits, reflecting fewer unemployed, more than offset the increase in elderly benefits.
- Major transfers to other levels of government were up 3.7 per cent, reflecting higher Equalization entitlements. As indicated in the 1999 budget, Equalization entitlements were revised up significantly due to historical data revisions which indicated much stronger economic growth in Ontario than in the Equalization-receiving provinces.
- Direct program spending declined by 0.3 per cent, with an increase of 7.8 per cent in subsidies and other transfers offsetting declines in payments to Crown corporations and operating and capital expenditures. Developments within direct program spending primarily reflect the timing of payments.



The Fiscal Monitor

Table 1

Summary statement of transactions

	July		April to July	
	1998	1999	1998-99	1999-00
(millions of dollars)				
Budgetary transactions				
Revenues	13,061	12,664	51,760	52,609
Program spending	-8,358	-8,384	-32,106	-33,163
Operating surplus	4,703	4,280	19,654	19,446
Public debt charges	-3,448	-3,506	-13,958	-13,895
Budgetary balance (deficit/surplus)	1,255	774	5,696	5,551
Non-budgetary transactions	-1,153	19	-3,470	-5,381
Financial requirements/surplus (excluding foreign exchange transactions)	102	793	2,226	170
Foreign exchange transactions	-2,420	1,305	1,208	535
Net financial balance	-2,318	2,098	3,434	705
Net change in borrowings	880	2,458	-8,892	-2,265
Net change in cash balances	-1,438	4,556	-5,458	-1,560

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

Public debt charges were up 1.7 per cent, primarily reflecting an increase in the stock of interest-bearing debt, as the average effective interest rate was unchanged.

Year-to-date: budgetary surplus down \$145 million

Over the first four months of fiscal year 1999-2000, the budgetary surplus was estimated at \$5.6 billion, down \$0.1 billion from the surplus of \$5.7 billion recorded in the same period of 1998-99. The year-over-year change in the budgetary surplus will be affected in upcoming months by the tax reduction measures announced in the 1999 budget, which became effective July 1, 1999, as well as the 1998 budget measure to increase the CCTB.

Budgetary revenues were up \$0.8 billion, or 1.6 per cent on a year-over-year basis. All major components were up with the exception of corporate income tax revenues.

- Personal income tax collections were up \$0.4 billion, or 1.4 per cent. This increase was due to both higher taxes paid on filing, related to the 1998 taxation year, and increases in receipts from monthly deductions from employment income, due to increases in the number of people employed. However, there has been a slowdown in the rate of growth of receipts from monthly deductions, reflecting the impact of the tax relief measures announced in the 1998 and 1999 budgets. In addition, the results to date were further dampened by higher personal income tax refunds related to the 1998 taxation year and higher CCTB payments, reflecting increases announced in previous budgets.

Table 2

Budgetary revenues

	July		Change	April to July		Change
	1998	1999		1998-99	1999-00	
	(millions of dollars)		(%)	(millions of dollars)		(%)
Income taxes						
Personal income tax	6,531	5,998	-8.2	25,517	25,870	1.4
Corporate income tax	1,712	1,666	-2.7	6,428	5,959	-7.3
Other income tax revenue	220	197	-10.5	833	975	17.0
Total income tax	8,463	7,861	-7.1	32,778	32,804	0.1
Employment insurance premium revenues	1,732	1,697	-2.0	7,051	7,063	0.2
Excise taxes and duties						
Goods and services tax	1,545	1,773	14.8	6,642	7,149	7.6
Customs import duties	251	223	-11.2	756	845	11.8
Sales and excise taxes	724	725	0.1	2,843	2,894	1.8
Total excise taxes and duties	2,520	2,721	8.0	10,241	10,888	6.3
Total tax revenues	12,715	12,279	-3.4	50,070	50,755	1.4
Non-tax revenues	346	385	11.3	1,690	1,854	9.7
Total budgetary revenues	13,061	12,664	-3.0	51,760	52,609	1.6

- Corporate income tax revenues were down \$0.5 billion, or 7.3 per cent, due to the decline in corporate profits witnessed in 1998. Although corporate profits are estimated to have picked up in the first half of 1999, refunds related to overpayments with respect to taxation year 1998 and instalment payments based on 1998 liabilities are dampening revenues to date in 1999-2000.
- EI premium revenues were up marginally, as the effect of the decline in the premium rates (the employee rate for 1999 is \$2.55 per \$100 of insurable earnings compared to \$2.70 in 1998) was offset by an increase in the number of people employed.
- Net GST collections were up \$0.5 billion, or 7.6 per cent, while customs import duties were up 11.8 per cent. The growth in revenues in these components to date continues to be affected by timing considerations. The growth rates should come down in coming months and be more reflective of the growth in the respective tax bases. Sales and excise taxes and duties were up 1.8 per cent.

- Non-tax revenues, consisting of the return on investments and other non-tax revenues, such as fees and proceeds from sales, were up \$0.2 billion or 9.7 per cent. This component of budgetary revenues is quite volatile, reflecting the timing of receipts.

Program spending increased by \$1.1 billion, or 3.3 per cent, in the April to July 1999 period, compared to the same period last year. This increase was spread among all major components with the exception of payments to Crown corporations.

- Major transfers to persons were up slightly, as higher elderly benefit payments more than offset the decline in EI benefits. The higher elderly benefits reflect an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation. The decline in EI benefit payments was primarily due to a decline in the number of beneficiaries, reflecting a reduction in the number of people unemployed.

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Table 3

Budgetary expenditures

	July			April to July		
	1998	1999	Change	1998-99	1999-00	Change
	(millions of dollars)		(%)	(millions of dollars)		(%)
Transfer payments to:						
Persons						
Elderly benefits	1,929	1,986	3.0	7,497	7,617	1.6
Employment insurance benefits	873	793	-9.2	3,671	3,584	-2.4
Total	2,802	2,779	-0.8	11,168	11,201	0.3
Other levels of government						
Canada Health and Social Transfer	1,042	1,042	0.0	4,167	4,167	0.0
Fiscal transfers	817	880	7.7	3,132	3,481	11.1
Alternative Payments for Standing Programs	-187	-188	0.5	-747	-750	0.4
Total	1,672	1,734	3.7	6,552	6,898	5.3
Direct program spending						
Subsidies and other transfers						
Agriculture	74	18	-75.7	130	96	-26.2
Foreign Affairs	107	127	18.7	370	356	-3.8
Health	84	47	-44.0	324	309	-4.6
Human Resources Development	73	150	105.5	509	426	-16.3
Indian and Northern Development	271	278	2.6	1,578	1,670	5.8
Industry and Regional Development	105	136	29.5	343	399	16.3
Veterans Affairs	114	117	2.6	453	458	1.1
Other	185	219	18.4	686	717	4.5
Total	1,013	1,092	7.8	4,393	4,431	0.9
Payments to Crown corporations						
Canadian Broadcasting Corporation	60	50	-16.7	290	255	-12.1
Canada Mortgage and Housing Corporation	140	150	7.1	597	595	-0.3
Other	121	85	-29.8	365	395	8.2
Total	321	285	-11.2	1,252	1,245	-0.6
Operating and capital expenditures						
Defence	815	801	-1.7	2,698	2,812	4.2
All other departmental expenditures	1,735	1,693	-2.4	6,043	6,576	8.8
Total	2,550	2,494	-2.2	8,741	9,388	7.4
Total direct program spending	3,884	3,871	-0.3	14,386	15,064	4.7
Total program expenditures	8,358	8,384	0.3	32,106	33,163	3.3
Public debt charges	3,448	3,506	1.7	13,958	13,895	-0.5
Total budgetary expenditures	11,806	11,890	0.7	46,064	47,058	2.2
Memorandum item:						
Total transfers	5,487	5,605	2.2	22,113	22,530	1.9

Table 4

The budgetary balance and financial requirements/surplus

	July		April to July	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
Budgetary balance (deficit/surplus)	1,255	774	5,696	5,551
Loans, investments and advances				
Crown corporations	392	27	547	-110
Other	30	-53	19	357
Total	422	-26	566	247
Specified purpose accounts				
Canada Pension Plan Account	-514	-472	484	-202
Superannuation accounts	261	382	1,228	1,445
Other	-13	-18	-57	-125
Total	-266	-108	1,655	1,118
Other transactions	-1,309	153	-5,691	-6,746
Total non-budgetary transactions	-1,153	19	-3,470	-5,381
Financial requirements/surplus (excluding foreign exchange transactions)	102	793	2,226	170
Foreign exchange transactions	-2,420	1,305	1,208	535
Net financial balance	-2,318	2,098	3,434	705

Table 5

Net financial balance and net borrowings

	July		April to July	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
Net financial balance	-2,318	2,098	3,434	705
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	—	—	10,223	10,287
Canada Savings Bonds	-283	222	-1,821	-954
Treasury bills	-3,100	3,150	-20,700	-9,200
Other	515	247	1,571	1,246
Subtotal	-2,868	3,619	-10,727	1,379
Less: Government's holding of unmatured debt	94	-68	365	105
Total	-2,774	3,551	-10,362	1,484
Payable in foreign currencies				
Marketable bonds	3,494	—	3,494	—
Notes and loans	—	—	—	—
Canada bills	252	-867	-1,151	-3,523
Canada notes	-92	-226	-873	-226
Total	3,654	-1,093	1,470	-3,749
Net change in borrowings	880	2,458	-8,892	-2,265
Change in cash balance	-1,438	4,556	-5,458	-1,560

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- Major transfers to other levels of government were up 5.3 per cent, reflecting much higher fiscal transfers, most notably for Equalization, as explained above.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, increased by \$0.7 billion, or 4.7 per cent. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. Developments in this component are affected by the timing of payments, as well as the lifting of the wage freeze and the effect of new initiatives announced in the February 1999 budget.

Public debt charges were down 0.5 per cent due to a decline in the average effective interest rate. The stock of interest-bearing debt was up somewhat as an increase in pension liabilities more than offset a decline in market debt.

Year-to-date: financial surplus of \$0.2 billion (excluding foreign exchange transactions)

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the government has legislative control.

In contrast, financial requirements/surplus measure the difference between cash coming in to the government and cash going out. Financial requirements/surplus differ from the budgetary balance, as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$5.4 billion in the first four months of 1999-2000, compared to a net requirement of \$3.5 billion in the same period last year. This increase was entirely attributable to the payment to a third-party trust of the \$3.5-billion Canada Health and Social Transfer cash supplement, as announced in the 1999 budget. As a result, there was a financial surplus (excluding foreign exchange transactions) of \$0.2 billion in the April to July 1999 period, compared to a financial surplus of \$2.2 billion recorded in the same period last year.

Year-to-date: net financial surplus of \$0.7 billion (including foreign exchange transactions)

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. It fulfills this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions. Taking all of these factors into account, there was a net source of \$0.5 billion in the April to July 1999 period, compared to a net source of \$1.2 billion in the same period last year.

With a budgetary surplus of \$5.6 billion, a net requirement of \$5.4 billion from non-budgetary transactions and a net source of \$0.5 billion from foreign exchange transactions, there was a net financial surplus of \$0.7 billion in the April to July 1999 period compared to a net surplus of \$3.4 billion in the same period last year.

Table 6

Condensed statement of assets and liabilities

	March 31, 1999	July 31, 1999	Change
	(millions of dollars)		
Liabilities			
Accounts payable, accruals and allowances			
Accounts payable and accrued liabilities	18,911	18,274	-637
Interest and matured debt	7,374	7,505	131
Allowances	12,804	10,917	-1,887
Total accounts payable, accruals and allowances	39,089	36,696	-2,393
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	121,342	122,787	1,445
Canada Pension Plan (net of securities)	6,794	6,592	-202
Other pension and other accounts	4,551	4,426	-125
Total pension and other accounts	132,687	133,805	1,118
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	295,555	305,864	10,309
Treasury bills	96,950	87,833	-9,117
Canada Savings Bonds	28,087	27,133	-954
Other	4,063	5,309	1,246
Subtotal	424,655	426,139	1,484
Payable in foreign currencies			
Marketable bonds	23,176	23,176	
Canada bills	10,230	6,707	-3,523
Canada notes	1,863	1,637	-226
Subtotal	35,269	31,520	-3,749
Total unmaturred debt	459,924	457,659	-2,265
Total interest-bearing debt	592,611	591,464	-1,147
Total liabilities	631,700	628,160	-3,540
Assets			
Cash and accounts receivable	8,730	9,959	1,229
Foreign exchange accounts	33,446	33,981	535
Loans, investments and advances (net of allowances)	12,824	13,071	247
Total assets	55,000	57,011	2,011
Accumulated deficit (net public debt)	576,700	571,149	-5,551

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Year-to-date: net borrowings down \$2.3 billion

Although there was a net financial surplus of only \$0.7 billion in the April to July 1999 period, the government has retired \$2.3 billion of market debt to the end of July 1999, primarily through a \$1.6-billion reduction in its cash balances. Cash balances at the end of July 1999 amounted to \$7.7 billion.



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The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for August 1999

Budgetary surplus of \$0.6 billion in August 1999

There was a budgetary surplus of \$0.6 billion in August 1999, up \$0.4 billion from the surplus of \$0.2 billion recorded in August 1998. All of this year-over-year increase was due to higher budgetary revenues, up \$0.7 billion, or 5.7 per cent. Program spending was up \$0.2 billion, or 2.6 per cent, while public debt charges were up \$69 million, or 2.2 per cent.

Within budgetary revenues:

- Personal income tax collections were up 11.2 per cent, with all of the increase attributable to higher receipts from deductions from employment income. This primarily reflects the timing of receipts, as there was an extra pay period included in the August 1999 results. Most of this increase should be offset in September.
- Corporate income tax collections declined 16.9 per cent, primarily reflecting higher refunds attributable to the instalment overpayments in 1998-99.
- Employment insurance (EI) premium revenues were down 4.7 per cent, as the effect of the decline in the premium rates (the employee rate for 1999 is \$2.55 per \$100 of insurable earnings compared to \$2.70 in 1998) more than offset an increase in the number of people employed.
- Net goods and services tax (GST) revenues were up 19.8 per cent. Monthly revenues to date have been extremely volatile and

inconsistent with the developments in the underlying tax base. Customs import duties declined by 41.2 per cent, largely due to the timing of payments, which overstated the net increase in the first four months of 1999-2000. Other excise taxes and duties were down 4.7 per cent.

- Non-tax revenues were up 37.2 per cent, primarily reflecting the timing of receipts.

Within program spending:

- Major transfers to persons were up 3.6 per cent. Elderly benefits advanced 3.0 per cent, reflecting higher average benefits and an increase in the number of recipients. EI benefits were up 4.8 per cent, largely reflecting timing considerations – in July, EI benefits were down 9.2 per cent.
- Major transfers to other levels of government were up 5.1 per cent, reflecting higher Equalization entitlements. As indicated in the 1999 budget, Equalization entitlements were revised up significantly due to historical data revisions which indicated much stronger economic growth in Ontario than in the Equalization-receiving provinces.
- Direct program spending increased by 0.9 per cent. Subsidies and other transfers were down 17.1 per cent, payments to Crown corporations were up 28.3 per cent, while operating and capital expenditures were up 6.8 per cent. Developments within direct program spending primarily reflect the timing of payments.



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Table 1

Summary statement of transactions

	August		April to August	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
Budgetary transactions				
Revenues	11,800	12,473	63,561	65,081
Program spending	-8,498	-8,720	-40,604	-41,884
Operating surplus	3,302	3,753	22,957	23,197
Public debt charges	-3,124	-3,193	-17,082	-17,087
Budgetary balance (deficit/surplus)	178	560	5,875	6,110
Non-budgetary transactions	2,174	1,010	-1,296	-4,371
Financial requirements/surplus (excluding foreign exchange transactions)	2,352	1,570	4,579	1,739
Foreign exchange transactions	5,681	-859	6,889	-324
Net financial balance	8,033	711	11,468	1,415
Net change in borrowings	1,577	878	-7,314	-1,388
Net change in cash balances	9,610	1,589	4,154	27

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

Public debt charges were up 2.2 per cent, primarily reflecting an increase in the stock of interest-bearing debt.

Year-to-date: budgetary surplus at \$6.1 billion

Over the first five months of fiscal year 1999-2000, the budgetary surplus was estimated at \$6.1 billion, up \$0.2 billion from the surplus of \$5.9 billion recorded in the same period of 1998-99. The year-over-year change in the budgetary surplus will be affected in upcoming months by the tax reduction measures announced in the 1999 budget, which became effective July 1, 1999, as well as the 1998 budget measure to increase the Canada Child Tax Benefit (CCTB).

Budgetary revenues were up \$1.5 billion, or 2.4 per cent, on a year-over-year basis. All major components were up with the exception of corporate income tax revenues, EI premium revenues and customs import duties.

- Personal income tax collections were up \$0.9 billion, or 3.1 per cent. This increase was largely attributable to higher receipts from monthly deductions from employment income, due to increases in the number of people employed and to the inclusion of an extra pay period in the year-to-date results. Dampening these developments were higher personal income tax refunds related to the 1998 taxation year and higher CCTB payments, reflecting increases announced in previous budgets. Moving forward, the results will be affected by the tax relief measures announced in the 1999 budget.
- Corporate income tax revenues were down \$0.7 billion, or 9.0 per cent, due to the decline in corporate profits witnessed in 1998. Although corporate profits are estimated to have picked up in the first half of 1999, refunds related to overpayments with respect to taxation year 1998 and instalment payments based on 1998 liabilities are dampening revenues to date in 1999-2000.

Table 2

Budgetary revenues

	August		Change	April to August		Change
	1998	1999		1998-99	1999-00	
	(millions of dollars)		(%)	(millions of dollars)		(%)
Income taxes						
Personal income tax	5,288	5,878	11.2	30,805	31,748	3.1
Corporate income tax	1,409	1,171	-16.9	7,838	7,130	-9.0
Other income tax revenue	222	271	22.1	1,055	1,246	18.1
Total income tax	6,919	7,320	5.8	39,698	40,124	1.1
Employment insurance premium revenues	1,607	1,531	-4.7	8,658	8,594	-0.7
Excise taxes and duties						
Goods and services tax	1,870	2,240	19.8	8,512	9,390	10.3
Customs import duties	277	163	-41.2	1,033	1,008	-2.4
Sales and excise taxes	780	743	-4.7	3,621	3,639	0.5
Total excise taxes and duties	2,927	3,146	7.5	13,166	14,037	6.6
Total tax revenues	11,453	11,997	4.7	61,522	62,755	2.0
Non-tax revenues	347	476	37.2	2,039	2,326	14.1
Total budgetary revenues	11,800	12,473	5.7	63,561	65,081	2.4

- EI premium revenues were down marginally, as the effect of the decline in the premium rates was largely offset by an increase in the number of people employed.
- Net GST collections were up \$0.9 billion, or 10.3 per cent, well in excess of the growth in the underlying tax base. The growth in revenues to date continues to be affected by timing considerations, so the growth rate should come down in coming months and be more reflective of the growth in the tax bases. Customs import duties were down 2.4 per cent, reflecting the impact of tariff reductions. Sales and excise taxes and duties were up marginally.
- Non-tax revenues, consisting of the return on investments and other non-tax revenues, such as fees and proceeds from sales, were up \$0.3 billion, or 14.1 per cent. This component of budgetary revenues is quite volatile, reflecting the timing of receipts.

Program spending increased by \$1.3 billion, or 3.2 per cent, in the April to August 1999 period, compared to the same period last year.

- Major transfers to persons were up slightly, as higher elderly benefit payments more than offset the decline in EI benefits. The higher elderly benefits reflect an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation. The decline in EI benefit payments was primarily due to a decline in the number of beneficiaries, reflecting a reduction in the number of people unemployed.
- Major transfers to other levels of government were up \$0.4 billion, or 5.3 per cent, reflecting much higher fiscal transfers, most notably for Equalization, as explained above.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, increased by \$0.7 billion, or 3.9 per cent.

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Table 3

Budgetary expenditures

	August		Change	April to August		Change
	1998	1999		1998-99	1999-00	
	(millions of dollars)		(%)	(millions of dollars)		(%)
Transfer payments to:						
Persons						
Elderly benefits	1,888	1,945	3.0	9,385	9,562	1.9
Employment insurance benefits	911	955	4.8	4,582	4,539	-0.9
Total	2,799	2,900	3.6	13,967	14,101	1.0
Other levels of government						
Canada Health and Social Transfer	1,042	1,042	0.0	5,208	5,209	0.0
Fiscal transfers	782	866	10.7	3,913	4,347	11.1
Alternative Payments for Standing Programs	-187	-188	0.5	-934	-938	0.4
Total	1,637	1,720	5.1	8,187	8,618	5.3
Direct program spending						
Subsidies and other transfers						
Agriculture	93	53	-43.0	223	149	-33.2
Foreign Affairs	145	155	6.9	515	510	-1.0
Health	90	121	34.4	414	430	3.9
Human Resources Development	173	32	-81.5	681	458	-32.7
Indian and Northern Development	305	261	-14.4	1,883	1,932	2.6
Industry and Regional Development	153	147	-3.9	496	546	10.1
Veterans Affairs	113	115	1.8	566	573	1.2
Other	132	114	-13.6	818	831	1.6
Total	1,204	998	-17.1	5,596	5,429	-3.0
Payments to Crown corporations						
Canadian Broadcasting Corporation	44	85	93.2	334	340	1.8
Canada Mortgage and Housing Corporation	150	150	0.0	747	745	-0.3
Other	43	69	60.5	408	464	13.7
Total	237	304	28.3	1,489	1,549	4.0
Operating and capital expenditures						
Defence	876	1,016	16.0	3,574	3,826	7.1
All other departmental expenditures	1,745	1,782	2.1	7,791	8,361	7.3
Total	2,621	2,798	6.8	11,365	12,187	7.2
Total direct program spending	4,062	4,100	0.9	18,450	19,165	3.9
Total program expenditures	8,498	8,720	2.6	40,604	41,884	3.2
Public debt charges	3,124	3,193	2.2	17,082	17,087	0.0
Total budgetary expenditures	11,622	11,913	2.5	57,686	58,971	2.2
Memorandum item:						
Total transfers	5,640	5,618	-0.4	27,750	28,148	1.4

Table 4

The budgetary balance and financial requirements/surplus

	August		April to August	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
Budgetary balance (deficit/surplus)	178	560	5,875	6,110
Loans, investments and advances				
Crown corporations	62	60	609	-50
Other	98	-357	117	1
Total	160	-297	726	-49
Specified purpose accounts				
Canada Pension Plan Account	-122	-246	361	-448
Superannuation accounts	300	388	1,528	1,833
Other	52	14	-5	-111
Total	230	156	1,884	1,274
Other transactions	1,784	1,151	-3,906	-5,596
Total non-budgetary transactions	2,174	1,010	-1,296	-4,371
Financial requirements/surplus (excluding foreign exchange transactions)	2,352	1,570	4,579	1,739
Foreign exchange transactions	5,681	-859	6,889	-324
Net financial balance	8,033	711	11,468	1,415

Table 5

Net financial balance and net borrowings

	August		April to August	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
Net financial balance	8,033	711	11,468	1,415
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	2,300	-800	12,523	9,487
Canada Savings Bonds	-196	-34	-2,017	-988
Treasury bills	-2,100	1,750	-22,800	-7,450
Other	-24	49	1,547	1,295
Subtotal	-20	965	-10,747	2,344
Less: Government's holding of unmatured debt	89	173	455	278
Total	69	1,138	-10,292	2,622
Payable in foreign currencies				
Marketable bonds	75	-113	3,569	-113
Notes and loans	-	-	-	-
Canada bills	1,433	-147	282	-3,671
Canada notes	-	-	-873	-226
Total	1,508	-260	2,978	-4,010
Net change in borrowings	1,577	878	-7,314	-1,388
Change in cash balance	-9,610	1,589	4,154	27

This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. Developments in this component are affected by the timing of payments, as well as the lifting of the wage freeze and the effect of new initiatives announced in the February 1999 budget.

Public debt charges were virtually unchanged from year-earlier levels, as an increase in the stock of interest-bearing debt offset the impact of a decline in the average effective interest rate on that stock. The stock of interest-bearing debt was up somewhat as an increase in pension liabilities more than offset a decline in market debt.

Year-to-date: financial surplus of \$1.7 billion (excluding foreign exchange transactions)

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the government has legislative control.

In contrast, financial requirements/surplus measure the difference between cash coming in to the government and cash going out. Financial requirements/surplus differ from the budgetary balance, as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions:

Non-budgetary transactions resulted in a net requirement of \$4.4 billion in the first five months of 1999-2000, compared to a net requirement of \$1.3 billion in the same period last year. This increase was entirely attributable to the payment to a third-party trust of the \$3.5-billion Canada Health and Social Transfer cash supplement, as announced in the 1999 budget. As a result, there was a financial surplus (excluding foreign exchange transactions) of \$1.7 billion in the April to August 1999 period, compared to a financial surplus of \$4.6 billion recorded in the same period last year.

Year-to-date: net financial surplus of \$1.4 billion (including foreign exchange transactions)

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. It fulfills this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions. Taking all of these factors into account, there was a net requirement of \$0.3 billion in the April to August 1999 period, compared to a net source of \$6.9 billion in the same period last year.

Table 6

Condensed statement of assets and liabilities

	March 31, 1999	August 31, 1999	Change
	(millions of dollars)		
Liabilities			
Accounts payable, accruals and allowances			
Accounts payable and accrued liabilities	24,509	15,867	-8,642
Interest and matured debt	9,791	8,816	-975
Allowances	11,016	11,016	0
Total accounts payable, accruals and allowances	45,316	35,699	-9,617
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	122,407	124,240	1,833
Canada Pension Plan (net of securities)	5,427	4,979	-448
Other pension and other accounts	6,724	6,614	-110
Total pension and other accounts	134,558	135,833	1,275
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	295,752	305,239	9,487
Treasury bills	96,950	89,500	-7,450
Canada Savings Bonds	27,662	26,951	-711
Other	4,063	5,357	1,294
Subtotal	424,427	427,047	2,620
Payable in foreign currencies			
Marketable bonds	23,907	23,794	-113
Canada bills	10,230	6,559	-3,671
Canada notes	1,863	1,637	-226
Subtotal	36,000	31,990	-4,010
Total unmatured debt	460,427	459,037	-1,390
Total interest-bearing debt	594,985	594,870	-115
Total liabilities	640,301	630,569	-9,732
Assets			
Cash and accounts receivable	15,273	11,279	-3,994
Foreign exchange accounts	34,668	34,991	323
Loans, investments and advances (net of allowances)	13,536	13,585	49
Total assets	63,477	59,855	-3,622
Accumulated deficit (net public debt)	576,824	570,714	-6,110

The Fiscal Monitor

With a budgetary surplus of \$6.1 billion, a net requirement of \$4.4 billion from non-budgetary transactions and a net requirement of \$0.3 billion from foreign exchange transactions, there was a net financial surplus of \$1.4 billion in the April to August 1999 period compared to a net surplus of \$11.5 billion in the same period last year.

This net financial surplus was used to retire \$1.4 billion of market debt to the end of August 1999. Cash balances at the end of August 1999 amounted to \$9.3 billion.

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October 1999



The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for September 1999

Budgetary surplus of \$1.9 billion in September 1999

There was a budgetary surplus of \$1.9 billion in September 1999, down \$0.1 billion from the surplus recorded in September 1998, as an increase in budgetary revenues (up \$0.4 billion, or 2.9 per cent) was more than offset by increases in program spending (up \$0.4 billion, or 4.9 per cent) and public debt charges (up \$0.1 billion, or 2.5 per cent).

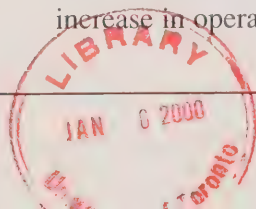
Within budgetary revenues:

- Personal income tax collections were up 9.9 per cent. However, about half of this increase was attributable to a transfer to employment insurance (EI) premium revenues in September 1998, which depressed personal income tax revenues in that month. Most of the remaining increase was attributable to continued strength in deductions from employment income, reflecting an increase in the number of people employed.
- Corporate income tax collections declined 2.0 per cent, primarily reflecting higher refunds attributable to instalment overpayments in 1998-99.
- EI premium revenues were down 20.7 per cent, primarily reflecting the September 1998 transfer from personal income tax revenues for underpayments relating to taxation year 1997. In addition, the reduction in the premium rates (the employee rate for 1999 is \$2.55 per \$100 of insurable earnings compared to \$2.70 in 1998) more than offset an increase in the number of people employed.

- Excise taxes and duties increased by 4.1 per cent, roughly in line with the increase in the applicable tax base. However, there were large variations among the components. Net goods and services tax (GST) revenues were up 19.2 per cent, with virtually all of the increase attributable to GST collected on imports. In contrast, customs import duties declined 36.7 per cent. Other excise taxes and duties were down 18.2 per cent.
- Non-tax revenues declined 20.0 per cent, primarily reflecting the timing of receipts.

Within program spending:

- Major transfers to persons were down 1.8 per cent. Elderly benefits advanced 2.9 per cent, reflecting higher average benefits and an increase in the number of recipients. In contrast, EI benefits were down 13.1 per cent, largely reflecting timing considerations, which should be reversed in October.
- Major transfers to other levels of government were up 4.9 per cent, reflecting higher Equalization entitlements. As indicated in the 1999 budget, Equalization entitlements were revised up significantly due to historical data revisions which indicated much stronger economic growth in Ontario than in the Equalization-receiving provinces.
- Direct program spending increased by 9.4 per cent. Most of this increase reflects the timing of payments. Subsidies and other transfers were up 11.3 per cent, following a decline of 17.1 per cent in August 1999. Payments to Crown corporations were up 9.4 per cent. Increased defence spending accounted for most of the increase in operating and capital expenditures.



The Fiscal Monitor

Table 1

Summary statement of transactions

	September		April to September	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
Budgetary transactions				
Revenues	13,630	14,031	77,191	79,113
Program spending	-8,227	-8,630	-48,832	-50,514
Operating surplus	5,403	5,401	28,359	28,599
Public debt charges	-3,376	-3,461	-20,457	-20,549
Budgetary balance (deficit/surplus)	2,027	1,940	7,902	8,050
Non-budgetary transactions	-986	159	-2,282	-4,211
Financial requirements/surplus (excluding foreign exchange transactions)	1,041	2,099	5,620	3,839
Foreign exchange transactions	-1,054	501	5,835	177
Net financial balance	-13	2,600	11,455	4,016
Net change in borrowings	-9,109	-9,312	-16,424	-10,702
Net change in cash balances	-9,122	-6,712	-4,969	-6,686

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

Public debt charges were up 2.5 per cent, primarily reflecting an increase in the stock of interest-bearing debt.

Year-to-date: budgetary surplus of \$8.0 billion

Over the first six months of fiscal year 1999-2000, the budgetary surplus was estimated at \$8.0 billion, up \$148 million from the surplus recorded in the same period of 1998-99. The year-over-year change in the budgetary surplus will be affected in upcoming months by the tax reduction measures announced in the 1999 budget, which became effective July 1, 1999, the recently announced reduction in EI premium rates effective January 1, 2000 (the employee rate for 2000 will be \$2.40 per \$100 of insurable earnings compared to \$2.55 for 1999), as well as the 1998 budget measure to increase the Canada Child Tax Benefit (CCTB).

Budgetary revenues were up \$1.9 billion, or 2.5 per cent, on a year-over-year basis, with most of the increase attributable to higher personal income tax revenues.

- Personal income tax collections were up \$1.6 billion, or 4.3 per cent. This increase was largely attributable to higher receipts from monthly deductions from employment income, due to increases in the number of people employed, and higher taxes on filing related to the 1998 taxation year. Dampening these developments were higher personal income tax refunds related to the 1998 taxation year and higher CCTB payments, reflecting increases announced in previous budgets. Moving forward, the results will be affected by the tax relief measures announced in the 1999 budget.
- Corporate income tax revenues were down \$0.7 billion, or 7.9 per cent, due to the decline in corporate profits witnessed in 1998.

Table 2

Budgetary revenues

	September		Change	April to September		Change
	1998	1999		1998-99	1999-00	
	(millions of dollars)		(%)	(millions of dollars)		(%)
Income taxes						
Personal income tax	6,803	7,474	9.9	37,608	39,222	4.3
Corporate income tax	1,423	1,394	-2.0	9,261	8,525	-7.9
Other income tax revenue	55	198	260.0	1,110	1,444	30.1
Total income tax	8,281	9,066	9.5	47,979	49,191	2.5
Employment insurance premium revenues	1,764	1,398	-20.7	10,422	9,992	-4.1
Excise taxes and duties						
Goods and services tax	1,858	2,214	19.2	10,370	11,603	11.9
Customs import duties	256	162	-36.7	1,289	1,170	-9.2
Sales and excise taxes	780	638	-18.2	4,402	4,277	-2.8
Total excise taxes and duties	2,894	3,014	4.1	16,061	17,050	6.2
Total tax revenues	12,939	13,478	4.2	74,462	76,233	2.4
Non-tax revenues	691	553	-20.0	2,729	2,880	5.5
Total budgetary revenues	13,630	14,031	2.9	77,191	79,113	2.5

Although corporate profits are estimated to have picked up in the first half of 1999, refunds related to overpayments with respect to taxation year 1998 and instalment payments based on 1998 liabilities are dampening revenues to date in 1999-2000.

- EI premium revenues were down \$0.4 billion, or 4.1 per cent, primarily reflecting the impact of prior-year adjustments, as noted above.
- Excise taxes and duties increased \$1.0 billion, or 6.2 per cent. Net GST collections were up \$1.2 billion, or 11.9 per cent, well in excess of the growth in the underlying tax base. The growth in revenues to date continues to be affected by timing considerations, so the growth rate should come down in coming months and be more reflective of the growth in the tax bases. Customs import duties were down 9.2 per cent. Sales and excise taxes and duties were down 2.8 per cent, primarily attributable to the elimination of the Air Transportation Tax, effective November 1998.

- Non-tax revenues, consisting of the return on investments and other non-tax revenues, such as fees and proceeds from sales, were up \$0.2 billion, or 5.5 per cent. This component of budgetary revenues is quite volatile, reflecting the timing of receipts.

Program spending increased by \$1.7 billion, or 3.4 per cent, in the April to September 1999 period compared to the same period last year.

- Major transfers to persons were up slightly, as higher elderly benefit payments more than offset a decline in EI benefits. The higher elderly benefits reflect an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation. The decline in EI benefit payments was primarily due to a decline in the number of beneficiaries, reflecting a reduction in the number of people unemployed and timing factors.

The Fiscal Monitor

Table 3

Budgetary expenditures

	September		Change	April to September		Change
	1998	1999		1998-99	1999-00	
	(millions of dollars)		(%)	(millions of dollars)		(%)
Transfer payments to:						
Persons						
Elderly benefits	1,872	1,926	2.9	11,257	11,488	2.1
Employment insurance benefits	781	679	-13.1	5,363	5,218	-2.7
Total	2,653	2,605	-1.8	16,620	16,706	0.5
Other levels of government						
Canada Health and Social Transfer	1,042	1,041	-0.1	6,250	6,250	0.0
Fiscal transfers	784	867	10.6	4,698	5,214	11.0
Alternative Payments for Standing Programs	-187	-188	0.5	-1,120	-1,125	0.4
Total	1,639	1,720	4.9	9,828	10,339	5.2
Direct program spending						
Subsidies and other transfers						
Agriculture	39	121	210.3	262	270	3.1
Foreign Affairs	143	136	-4.9	657	647	-1.5
Health	55	72	30.9	469	501	6.8
Human Resources Development	156	249	59.6	837	707	-15.5
Indian and Northern Development	307	320	4.2	2,190	2,252	2.8
Industry and Regional Development	125	64	-48.8	621	610	-1.8
Veterans Affairs	115	115	0.0	681	689	1.2
Other	165	153	-7.3	983	984	0.1
Total	1,105	1,230	11.3	6,700	6,660	-0.6
Payments to Crown corporations						
Canadian Broadcasting Corporation	66	80	21.2	400	420	5.0
Canada Mortgage and Housing Corporation	120	150	25.0	867	895	3.2
Other	81	62	-23.5	490	526	7.3
Total	267	292	9.4	1,757	1,841	4.8
Operating and capital expenditures						
Defence	787	969	23.1	4,361	4,796	10.0
All other departmental expenditures	1,776	1,814	2.1	9,566	10,172	6.3
Total	2,563	2,783	8.6	13,927	14,968	7.5
Total direct program spending	3,935	4,305	9.4	22,384	23,469	4.8
Total program expenditures	8,227	8,630	4.9	48,832	50,514	3.4
Public debt charges	3,376	3,461	2.5	20,457	20,549	0.4
Total budgetary expenditures	11,603	12,091	4.2	69,289	71,063	2.6
Memorandum item:						
Total transfers	5,397	5,555	2.9	33,148	33,705	1.7

Table 4

The budgetary balance and financial requirements/surplus

	September		April to September	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
Budgetary balance (deficit/surplus)	2,027	1,940	7,902	8,050
Loans, investments and advances				
Crown corporations	122	69	730	19
Other	-553	-123	-435	-122
Total	-431	-54	295	-103
Specified purpose accounts				
Canada Pension Plan Account	1,028	737	1,389	289
Superannuation accounts	363	480	1,891	2,313
Other	24	14	19	-97
Total	1,415	1,231	3,299	2,505
Other transactions	-1,970	-1,018	-5,876	-6,613
Total non-budgetary transactions	-986	159	-2,282	-4,211
Financial requirements/surplus (excluding foreign exchange transactions)	1,041	2,099	5,620	3,839
Foreign exchange transactions	-1,054	501	5,835	177
Net financial balance	-13	2,600	11,455	4,016

Table 5

Net financial balance and net borrowings

	September		April to September	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
Net financial balance	-13	2,600	11,455	4,016
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	-6,492	-11,693	6,031	-2,206
Canada Savings Bonds	-99	-27	-2,116	-1,015
Treasury bills	-3,600	3,650	-26,400	-3,801
Other	-1,004	-759	543	535
Subtotal	-11,195	-8,829	-21,942	-6,487
Less: Government's holding of unmatured debt	77	55	532	332
Total	-11,118	-8,774	-21,410	-6,155
Payable in foreign currencies				
Marketable bonds	308	-302	3,877	-415
Notes and loans	—	—	—	—
Canada bills	1,754	-206	2,035	-3,876
Canada notes	-53	-30	-926	-256
Total	2,009	-538	4,986	-4,547
Net change in borrowings	-9,109	-9,312	-16,424	-10,702
Change in cash balance	-9,122	-6,712	-4,969	-6,686

- Major transfers to other levels of government were up \$0.5 billion, or 5.2 per cent, reflecting much higher fiscal transfers, most notably for Equalization, as explained above.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, increased by \$1.1 billion, or 4.8 per cent. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. Developments in this component are affected by the timing of payments as well as the lifting of the wage freeze, the effect of new initiatives announced in the February 1999 budget and the costs associated with Canada's international peacekeeping commitments.

Public debt charges were up slightly from year-earlier levels, as an increase in the stock of interest-bearing debt more than offset the impact of a decline in the average effective interest rate on that stock. The stock of interest-bearing debt was up somewhat as an increase in pension liabilities more than offset a decline in market debt.

Year-to-date: financial surplus of \$3.8 billion (excluding foreign exchange transactions)

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial requirements/surplus measure the difference between cash coming in to the Government and cash going out. Financial requirements/surplus differ from the budgetary balance, as the former includes transactions in loans, investments and advances,

federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$4.2 billion in the first six months of 1999-2000, compared to a net requirement of \$2.3 billion in the same period last year. This increase was entirely attributable to the payment to a third-party trust of the \$3.5-billion Canada Health and Social Transfer cash supplement, as announced in the 1999 budget. As a result, there was a financial surplus (excluding foreign exchange transactions) of \$3.8 billion in the April to September 1999 period, compared to a financial surplus of \$5.6 billion recorded in the same period last year.

Year-to-date: net financial surplus of \$4.0 billion (including foreign exchange transactions)

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. It fulfills this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions. Taking all of these factors into account, there was a net source of \$0.2 billion in the April to September 1999 period, compared to a net source of \$5.8 billion in the same period last year.

Table 6

Condensed statement of assets and liabilities

	March 31, 1999	September 30, 1999	Change
	(millions of dollars)		
Liabilities			
Accounts payable, accruals and allowances			
Accounts payable and accrued liabilities	24,509	16,881	-7,628
Interest and matured debt	9,791	9,449	-342
Allowances	11,016	11,016	0
Total accounts payable, accruals and allowances	45,316	37,346	-7,970
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	122,407	124,721	2,314
Canada Pension Plan (net of securities)	5,427	5,716	289
Other pension and other accounts	6,724	6,627	-97
Total pension and other accounts	134,558	137,064	2,506
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	295,752	293,546	-2,206
Treasury bills	96,950	93,150	-3,800
Canada Savings Bonds	27,662	26,980	-682
Other	4,063	4,598	535
Subtotal	424,427	418,274	-6,153
Payable in foreign currencies			
Marketable bonds	24,568	24,154	-415
Canada bills	10,171	6,294	-3,876
Canada notes	1,261	1,005	-256
Subtotal	36,000	31,453	-4,547
Total unmaturred debt	460,427	449,727	-10,701
Total interest-bearing debt	594,985	586,790	-8,195
Total liabilities	640,301	624,136	-16,165
Assets			
Cash and accounts receivable	15,273	7,232	-8,041
Foreign exchange accounts	34,668	34,491	-177
Loans, investments and advances (net of allowances)	13,536	13,639	103
Total assets	63,477	55,362	-8,115
Accumulated deficit (net public debt)	576,824	568,774	-8,050

The Fiscal Monitor

Table 7

Debt Servicing and Reduction Account (DSRA)

	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99
	(millions of dollars)							
Gross GST collected	29,564	30,516	32,652	36,715	38,048	40,733	46,986	50,174
Less:								
Refunds and rebates	12,134	13,145	14,271	17,112	18,874	19,782	24,633	26,640
Quarterly low-income credit	2,262	2,503	2,685	2,816	2,799	2,872	2,892	2,850
Net GST	15,168	14,868	15,696	16,787	16,375	18,079	19,461	20,684
GST penalties and interest received	19	71	90	129	135	159	127	123
Gains from wind-up of interest in Crown corporations/ disposal of shares	2	110			325			
Gifts to the Crown	0.4	0.1	0.2	0.5	0.3	0.3	0.2	1.2
Proceeds to DSRA	15,190	15,050	15,786	16,916	16,835	18,238	19,588	20,808

Source: *Public Accounts of Canada*.

With a budgetary surplus of \$8.0 billion, a net requirement of \$4.2 billion from non-budgetary transactions and a net source of \$0.2 billion from foreign exchange transactions, there was a net financial surplus of \$4.0 billion in the April to September 1999 period compared to a net surplus of \$11.5 billion in the same period last year.

This net financial surplus, coupled with a drawdown in cash balances of \$6.7 billion, was used to retire \$10.7 billion of market debt to the end of September 1999. Cash balances at the end of September 1999 amounted to \$2.6 billion.

The Debt Servicing and Reduction Account

In June 1991, legislation to establish the Debt Servicing and Reduction Account received Royal Assent. As a result, effective

April 1, 1991, all GST revenues net of the applicable input tax credits, rebates and the low-income credit, along with the net proceeds from the sale of Crown corporations and gifts to the Crown identified for debt reduction, must, by law, go directly to the Debt Servicing and Reduction Account. The funds in this account can only be used to pay the cost of servicing the public debt and ultimately to reduce the debt. The account is audited on an annual basis by the Auditor General of Canada. In his "Observations" on the 1996-97 and 1998-99 financial statements, the Auditor General questioned the need for this account, given the fundamental concept of the Consolidated Revenue Fund. The Government has asked the House of Commons Standing Committee on Finance to review this issue.

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November 1999



The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for October 1999

Budgetary surplus of \$112 million in October 1999

There was a budgetary surplus of \$112 million in October 1999, compared to a deficit of \$428 million in October 1998, as higher budgetary revenues (up \$478 million or 4.2 per cent) and lower public debt charges (down \$186 million or 5.4 per cent) more than offset an increase in program spending (up \$124 million or 1.5 per cent).

Within budgetary revenues:

- Personal income tax revenues were up 13.4 per cent, primarily attributable to continued strong gains in deductions from employment income, reflecting increases in the number of people employed.
- Corporate income tax revenues declined 18.6 per cent, primarily reflecting higher refunds attributable to the instalment overpayments in 1998-99.
- Employment insurance (EI) premium revenues were down 6.1 per cent, as the reduction in the premium rates (the employee rate for 1999 is \$2.55 per \$100 of insurable earnings compared to \$2.70 in 1998) more than offset an increase in the number of people employed.
- Excise taxes and duties increased by 7.0 per cent. There continue to be large variations among the components. Net goods and services tax (GST) revenues were up 13.5 per cent, as an increase in gross collections outpaced the growth in refunds and in the low-income credit.

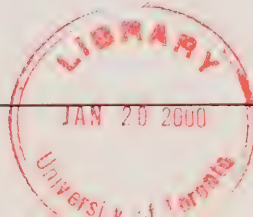
Customs import duties increased by 10.0 per cent, following a year-over-year decline of 36.7 per cent in September 1999. Other excise taxes and duties were down 10.2 per cent, following a year-over-year decline of 18.2 per cent in September 1999.

- Non-tax revenues declined 17.1 per cent, following a year-over-year decline of 20.0 per cent in September 1999.

Within program spending:

- Major transfers to persons were up 1.3 per cent. Elderly benefits advanced 1.7 per cent, reflecting higher average benefits and an increase in the number of recipients. EI benefits increased 0.4 per cent.
- Major transfers to other levels of government were up 2.1 per cent, reflecting higher Equalization entitlements. As indicated in the 1999 budget, Equalization entitlements were revised up significantly due to historical data revisions which indicated much stronger economic growth in Ontario than in the Equalization-receiving provinces.
- Direct program spending increased by 1.3 per cent. Subsidies and other transfers were up 3.6 per cent, payments to Crown corporations declined 14.5 per cent, while operating and capital expenditures increased by 2.3 per cent.

The decline in public debt charges was entirely attributable to corrections for overestimations of accrual adjustments in previous months.



The Fiscal Monitor

Table 1

Summary statement of transactions

	October		April to October	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
Budgetary transactions				
Revenues	11,511	11,989	88,702	91,101
Program spending	-8,498	-8,622	-57,329	-59,137
Operating surplus	3,013	3,367	31,373	31,964
Public debt charges	-3,441	-3,255	-23,899	-23,803
Budgetary balance (deficit/surplus)	-428	112	7,474	8,161
Non-budgetary transactions	-527	1,040	-2,807	-3,172
Financial requirements/surplus (excluding foreign exchange transactions)	-955	1,152	4,667	4,989
Foreign exchange transactions	-297	-1,039	5,538	-862
Net financial balance	-1,252	113	10,205	4,127
Net change in borrowings	-1,982	3,783	-18,406	-6,916
Net change in cash balances	-3,234	3,896	-8,201	-2,789

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

Year-to-date: budgetary surplus at \$8.2 billion

Over the first seven months of fiscal year 1999-2000, the budgetary surplus was estimated at \$8.2 billion, up \$0.7 billion from the surplus recorded in the same period of 1998-99. Based on previous years' experience, and including the impact of the tax relief measures announced in the February 1999 budget and the recently announced reduction in EI premium rates from \$2.55 to \$2.40 (employee rate per \$100 of insurable earnings), the budgetary surplus should continue to grow to the end of December but then decline in the final quarter of the fiscal year. As indicated in *The Economic and Fiscal Update*, in the absence of any additional policy measures, the underlying budgetary balance, based on the average of the private sector forecasts, is estimated at \$5.0 billion for the year as a

whole. Of this amount, \$3.0 billion is earmarked for the Contingency Reserve, which if not needed, will be used to pay down the public debt.

Budgetary revenues were up \$2.4 billion, or 2.7 per cent, on a year-over-year basis, as higher personal income tax and GST revenues more than offset declines in corporate income tax and EI premium revenues.

- Personal income tax collections were up \$2.3 billion, or 5.4 per cent, with virtually all of the increase reported in the last three months. This increase was largely attributable to higher receipts from monthly deductions from employment income, due to increases in the number of people employed. Dampening these developments were higher personal income tax refunds related to the 1998 taxation year and higher Canada Child Tax Benefit payments, reflecting increases announced in previous budgets.

Table 2

Budgetary revenues

	October		Change	April to October		Change
	1998	1999		1998-99	1999-00	
	(millions of dollars)		(%)	(millions of dollars)		(%)
Income taxes						
Personal income tax	5,413	6,138	13.4	43,022	45,361	5.4
Corporate income tax	1,380	1,124	-18.6	10,641	9,648	-9.3
Other income tax revenue	273	255	-6.6	1,383	1,699	22.8
Total income tax	7,066	7,517	6.4	55,046	56,708	3.0
Employment insurance premium revenues	1,322	1,242	-6.1	11,744	11,234	-4.3
Excise taxes and duties						
Goods and services tax	1,764	2,003	13.5	12,133	13,606	12.1
Customs import duties	190	209	10.0	1,479	1,379	-6.8
Sales and excise taxes	706	634	-10.2	5,107	4,910	-3.9
Total excise taxes and duties	2,660	2,846	7.0	18,719	19,895	6.3
Total tax revenues	11,048	11,605	5.0	85,509	87,837	2.7
Non-tax revenues	463	384	-17.1	3,193	3,264	2.2
Total budgetary revenues	11,511	11,989	4.2	88,702	91,101	2.7

- Corporate income tax revenues were down \$1.0 billion, or 9.3 per cent, due to the decline in corporate profits witnessed in 1998. Although corporate profits are estimated to have picked up strongly in the first three quarters of the 1999 calendar year, refunds related to overpayments with respect to taxation year 1998 and instalment payments based on 1998 liabilities are dampening revenues to date in 1999-2000.
- EI premium revenues were down \$0.5 billion, or 4.3 per cent, as the decline in EI premium rates and adjustments related to previous years more than offset the impact of the growth in the number of people employed and therefore paying premiums.
- Excise taxes and duties increased \$1.2 billion or 6.3 per cent. Net GST collections were up \$1.5 billion, or 12.1 per cent, well in excess of the growth in the underlying tax base, and more than the increase recorded in 1998-99 for the year as a whole. The growth in revenues to date continues to be affected by timing considerations, so the growth rate should come down in coming months and be more reflective of the growth in the tax bases. Customs import duties were down 6.8 per cent. Sales and excise taxes and duties were down 3.9 per cent, in part attributable to the elimination of the Air Transportation Tax, effective November 1998.
- Non-tax revenues, consisting of the return on investments and other non-tax revenues, such as fees and proceeds from sales, were up \$0.1 billion, or 2.2 per cent. This component of budgetary revenues is quite volatile, reflecting the timing of receipts.

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Table 3

Budgetary expenditures

	October			April to October		
	1998	1999	Change	1998-99	1999-00	Change
	(millions of dollars)		(%)	(millions of dollars)		(%)
Transfer payments to:						
Persons						
Elderly benefits	1,928	1,960	1.7	13,185	13,448	2.0
Employment insurance benefits	747	750	0.4	6,110	5,969	-2.3
Total	2,675	2,710	1.3	19,295	19,417	0.6
Other levels of government						
Canada Health and Social Transfer	1,042	1,042	0.0	7,292	7,292	0.0
Fiscal transfers	829	868	4.7	5,527	6,081	10.0
Alternative Payments for Standing Programs	-185	-188	1.6	-1,305	-1,313	0.6
Total	1,686	1,722	2.1	11,514	12,060	4.7
Direct program spending						
Subsidies and other transfers						
Agriculture	27	45	66.7	289	315	9.0
Foreign Affairs	108	174	61.1	766	821	7.2
Health	91	86	-5.5	560	587	4.8
Human Resources Development	141	159	12.8	979	866	-11.5
Indian and Northern Development	261	262	0.4	2,451	2,514	2.6
Industry and Regional Development	140	127	-9.3	761	737	-3.2
Veterans Affairs	114	117	2.6	795	805	1.3
Other	212	163	-23.1	1,195	1,147	-4.0
Total	1,094	1,133	3.6	7,796	7,792	-0.1
Payments to Crown corporations						
Canadian Broadcasting Corporation	105	65	-38.1	505	485	-4.0
Canada Mortgage and Housing Corporation	135	150	11.1	1,002	1,045	4.3
Other	91	68	-25.3	581	594	2.2
Total	331	283	-14.5	2,088	2,124	1.7
Operating and capital expenditures						
Defence	866	797	-8.0	5,227	5,592	7.0
All other departmental expenditures	1,846	1,977	7.1	11,409	12,152	6.5
Total	2,712	2,774	2.3	16,636	17,744	6.7
Total direct program spending	4,137	4,190	1.3	26,520	27,660	4.3
Total program expenditures	8,498	8,622	1.5	57,329	59,137	3.2
Public debt charges	3,441	3,255	-5.4	23,899	23,803	-0.4
Total budgetary expenditures	11,939	11,877	-0.5	81,228	82,940	2.1
Memorandum item:						
Total transfers	5,455	5,565	2.0	38,605	39,269	1.7

Program spending increased by \$1.8 billion, or 3.2 per cent, in the April to October 1999 period, compared to the same period last year.

- Major transfers to persons were up slightly, as higher elderly benefit payments more than offset a decline in EI benefits. The higher elderly benefits reflect an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation. The decline in EI benefit payments was due to a decline in the number of beneficiaries, reflecting a reduction in the number of people unemployed and timing factors. In contrast, special EI benefits and payments under employment benefit and support measures were higher.
- Major transfers to other levels of government were up \$0.5 billion, or 4.7 per cent, reflecting much higher fiscal transfers, most notably for Equalization, as explained above.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, increased by \$1.1 billion, or 4.3 per cent. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. Developments in this component are affected by the timing of payments, as well as the lifting of the wage freeze, the effect of new initiatives announced in the February 1999 budget, and the costs associated with Canada's international peacekeeping commitments.

Public debt charges were down slightly from year-earlier levels, reflecting a slight decline in the average effective interest rate on the stock of interest-bearing debt.

Year-to-date: financial surplus of \$5.0 billion (excluding foreign exchange transactions)

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial requirements/surplus measure the difference between cash coming in to the Government and cash going out. Financial requirements/surplus differ from the budgetary balance, as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$3.2 billion in the first seven months of 1999-2000, compared to a net requirement of \$2.8 billion in the same period last year. This increase was more than accounted for by the payment to a third-party trust of the \$3.5-billion Canada Health and Social Transfer cash supplement, as announced in the 1999 budget. As a result, there was a financial surplus (excluding foreign exchange transactions) of \$5.0 billion in the April to October 1999 period, up slightly from that recorded in the same period last year.

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Table 4

The budgetary balance and financial requirements/surplus

	October		April to October	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
Budgetary balance (deficit/surplus)	-428	112	7,474	8,161
Loans, investments and advances				
Crown corporations	19	170	750	189
Other	-1	48	-437	-74
Total	18	218	313	115
Specified purpose accounts				
Canada Pension Plan Account	-447	-57	942	232
Superannuation accounts	319	464	2,211	2,777
Other	35	-29	54	-126
Total	-93	378	3,207	2,883
Other transactions	-452	444	-6,327	-6,170
Total non-budgetary transactions	-527	1,040	-2,807	-3,172
Financial requirements/surplus (excluding foreign exchange transactions)	-955	1,152	4,667	4,989
Foreign exchange transactions	-297	-1,039	5,538	-862
Net financial balance	-1,252	113	10,205	4,127

Table 5

Net financial balance and net borrowings

	October		April to October	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
Net financial balance	-1,252	113	10,205	4,127
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	-3,100	4,172	2,931	1,967
Canada Savings Bonds	-370	-30	-2,486	-1,045
Treasury bills	800	150	-25,600	-3,650
Other	377	-234	919	301
Subtotal	-2,293	4,058	-24,236	-2,427
Less: Government's holding of unmatured debt	34	26	567	359
Total	-2,259	4,084	-23,669	-2,068
Payable in foreign currencies				
Marketable bonds	511	—	4,388	-415
Notes and loans	—	—	—	—
Canada bills	-213	-301	1,822	-4,177
Canada notes	-21	—	-947	-256
Total	277	-301	5,263	-4,848
Net change in borrowings	-1,982	3,783	-18,406	-6,916
Change in cash balance	-3,234	3,896	-8,201	-2,789

Year-to-date: net financial surplus of \$4.1 billion (including foreign exchange transactions)

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. It fulfills this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange

transactions. Taking all of these factors into account, there was a net requirement of \$0.9 billion in the April to October 1999 period, compared to a net source of \$5.5 billion in the same period last year.

With a budgetary surplus of \$8.2 billion, a net requirement of \$3.2 billion from non-budgetary transactions and a net requirement of \$0.9 billion from foreign exchange transactions, there was a net financial surplus of \$4.1 billion in the April to October 1999 period compared to a net surplus of \$10.2 billion in the same period last year.

This net financial surplus of \$4.1 billion, coupled with a drawdown in cash balances of \$2.8 billion, was used to retire \$6.9 billion of market debt to the end of October 1999. Cash balances at the end of October 1999 amounted to \$6.5 billion.

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Table 6

Condensed statement of assets and liabilities

	March 31, 1999	October 31, 1999	Change
	(millions of dollars)		
Liabilities			
Accounts payable, accruals and allowances			
Accounts payable and accrued liabilities	24,509	13,128	-11,381
Interest and matured debt	9,791	10,510	719
Allowances	11,016	11,016	0
Total accounts payable, accruals and allowances	45,316	34,654	-10,662
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	122,407	125,185	2,778
Canada Pension Plan (net of securities)	5,427	5,659	232
Other pension and other accounts	6,724	6,597	-127
Total pension and other accounts	134,558	137,441	2,883
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	295,752	297,719	1,967
Treasury bills	96,950	93,300	-3,650
Canada Savings Bonds	27,662	26,976	-686
Other	4,063	4,364	301
Subtotal	424,427	422,359	-2,068
Payable in foreign currencies			
Marketable bonds	23,907	23,492	-415
Canada bills	10,230	6,053	-4,177
Canada notes	1,863	1,607	-256
Subtotal	36,000	31,152	-4,848
Total unmaturred debt	460,427	453,511	-6,916
Total interest-bearing debt	594,985	590,952	-4,033
Total liabilities	640,301	625,606	-14,695
Assets			
Cash and accounts receivable	15,273	7,993	-7,280
Foreign exchange accounts	34,668	35,529	861
Loans, investments and advances (net of allowances)	13,536	13,421	-115
Total assets	63,477	56,943	-6,534
Accumulated deficit (net public debt)	576,824	568,663	-8,161

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